

# BUSINESS WEEK

November 18, 1961

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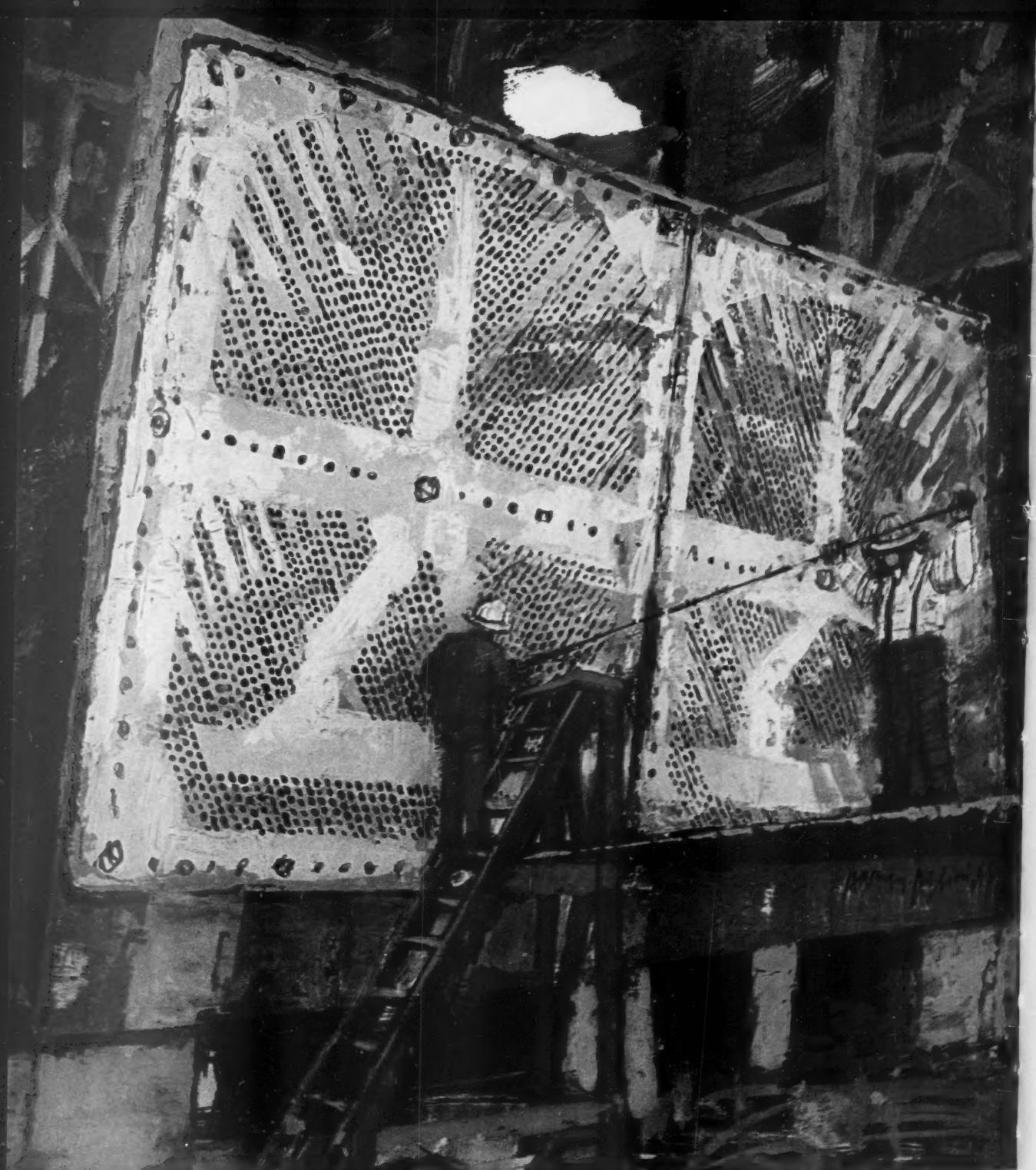
A McGraw Hill Publication

The U.N.'s future:  
the basic issues

[Page 118]

Below: Western Electric's H. I. Romnes  
is leading a giant manufacturer-in  
a switch to the electronic age [Companies]





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In  
BUSINESS  
this  
WEEK

November 18, 1961

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**BW**

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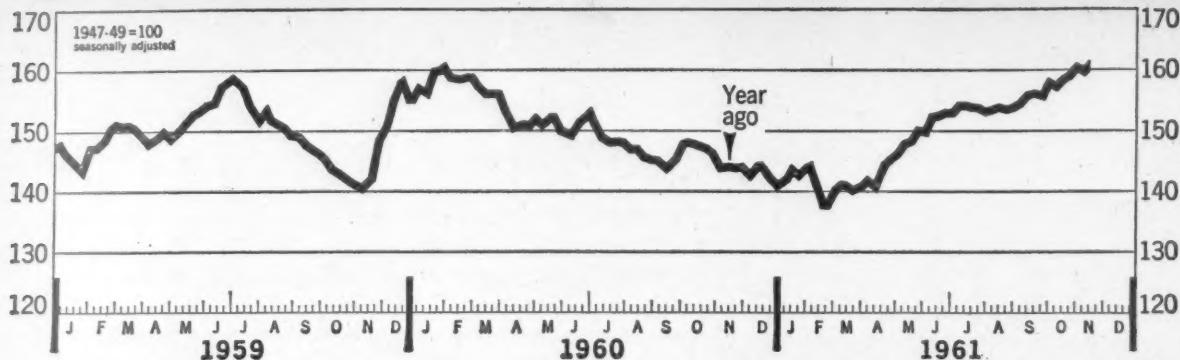
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Business Week  
is published weekly  
by McGraw-Hill  
Publishing Co., Inc.  
330 W. 42nd St.,  
N.Y. 36, N.Y.  
Second class  
postage paid at  
N.Y. 1, N.Y.,  
and at additional  
mailing offices.  
Subscription  
\$6 a year in U.S.A.  
Canadian and foreign  
rates on request.

Number 1681

## Figures of the week



### BUSINESS WEEK index chart

#### Production

	1953-55 average	Year ago	Month ago	Week ago	Latest Week
Steel ingot [thous. of tons] .....	2,032	1,468	2,071	2,044r	2,046
Automobiles .....	125,553	138,682	96,207	152,855r	151,758
Engineering const. awards [Eng. News-Rec. 4-wk. daily av. in thous.] .....	\$52,412	\$65,634	\$79,115	\$78,788	\$75,362
Electric power [millions of kilowatt-hours] .....	10,819	14,505	15,125	15,396	15,520
Crude oil and condensate [daily av., thous. of bbl.] .....	6,536	6,955	7,153	7,154	7,178
Bituminous coal [daily av., thous. of tons] .....	1,455	1,354	1,433	1,522r	1,464
Paperboard [tons] .....	247,488	325,226	349,905	352,866	344,729

#### Trade

Carloadings: miscellaneous and l.c.l. [daily av., thous. of cars] .....	70	57	60	61	60
Carloadings: all others [daily av., thous. of cars] .....	47	43	47	47	44
Department store sales index [1947-49=100, not seasonally adjusted] .....	121	149	164	152	154
Business failures [Dun & Bradstreet, number] .....	198	298	341	344	336

#### Prices

Industrial raw materials, daily Index [BLS, 1947-49=100] .....	89.2	87.7	91.6	89.1	88.3
Foodstuffs, daily index [BLS, 1947-49=100] .....	90.5	76.2	73.9	74.6	75.0
Print cloth [spot and nearby, yd.] .....	19.8¢	18.0¢	17.8¢	17.8¢	17.8¢
Finished steel, index [BLS, 1947-49=100] .....	143.9	186.2	185.4	185.4	185.4
Scrap steel composite [Iron Age, ton] .....	\$36.10	\$28.33	\$38.83	\$32.83	\$32.83
Copper [electrolytic, delivered price, E&MJ, lb.] .....	32.394¢	30.000¢	31.000¢	31.000¢	31.000¢
Aluminum, primary pig [U. S. del., E&MJ, lb.] .....	20.6¢	26.0¢	24.0¢	24.0¢	24.0¢
Wheat [No. 2, hard and dark hard winter, Kansas City bu.] .....	\$2.34	\$2.02	\$2.10	\$2.11	\$2.10
Cotton, daily price [middling, 1 in., 14 designated markets, lb.] .....	34.57¢	30.20¢	33.60¢	33.60¢	33.60¢
Wool tops [Boston, lb.] .....	\$1.96	\$1.68	\$1.81	\$1.81	\$1.81

#### Finance

500 stocks composite, price Index [S&P's, 1941-43=10] .....	31.64	55.82	68.03	69.87	71.29
Medium grade corporate bond yield [Baa issue, Moody's] .....	3.59%	5.07%	5.13%	5.11%	5.11%
Prime commercial paper, 4 to 6 months, N. Y. City [prevailing rate] .....	2-2½%	3½%	3%	3%	2½%

#### Banking Millions of dollars

Demand deposits adjusted, reporting member banks .....	††	59,441	62,189	63,423	62,395
Total loans and investments, reporting member banks .....	††	108,039	116,984	117,467	116,900
Commercial, industrial and agricultural loans, reporting member banks .....	††	32,876	33,023	33,295	33,237
U. S. gov't guaranteed obligations held, reporting member banks .....	††	29,254	34,240	34,087	33,770
Total federal reserve credit outstanding .....	26,424	29,211	29,517	29,404	29,760
Gold stock .....	21,879	18,116	17,349	17,302	17,276

#### Monthly figures of the week

	1953-55 average	Year ago	Month ago	Latest Month
Bank debits [in billions] .....	October .....	\$158.1	\$233.1	\$246.6
Retail sales [seasonally adjusted, in billions] .....	October .....	\$14.5	\$18.5	\$18.1
Wholesalers' inventories [seasonally adjusted, in billions] .....	September ..	\$10.6	\$13.1	\$13.6
Retailers' inventories [seasonally adjusted, in billions] .....	September ..	\$21.4	\$25.3	\$24.5
Imports [in millions] .....	September ..	\$902	\$1,160	\$1,234

\* Preliminary, week ended November 11, 1961.

†† Not available. Series revised.

† Revised.

§ Date for 'Latest Week' on each series on request.

The Pictures: Cover, Herb Kratovil; 25, WW; 26, 27, Marty Nordstrom; 30, 31, Herb Kratovil; 34, WW; 52, 53, 54, 60, Western Electric Co., Inc.; 80, 81, Herb Kratovil; 93, Herb Kratovil; 106, 107, Jim Drake; 118, UPI; 119, WW; 124, Miehle-Goss-Dexter, Inc.; 139, Ed Malsberg; 141, Seafarer's International Union; 142, (top rt.) Ed Maker, (top rt.) Fred L. Tonne; (bot. rt.) Paul Ockrassa; (bot. rt.) Mart Studios Inc.; 156, 157, 160, Charles Buzek.

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**BUSINESS WEEK**, November 18, 1961



NUMBER 1681

Published weekly by McGraw-Hill Publishing Company, Inc. Founder: James H. McGraw [1860-1948].

Subscriptions: Available only by paid subscription. Publisher reserves the right to refuse non-qualified subscriptions. Subscriptions to *Business Week* solicited only from management men in business and industry. Position and company connection must be indicated on subscription orders forwarded to address shown below. U.S. subscription rate for individuals in the field of the publication \$6 per year; single copies 50c. Canadian and foreign rates on request.

Executive, Editorial, Circulation and Advertising Offices: McGraw-Hill Building, 330 West 42nd Street, New York 36, N. Y. Telephone: LONGacres 4-3000. Teletype: TWX N.Y. 1-1636. Cable address McGRAW HILL, N.Y.

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## READERS REPORT

### Our serious competitor

Dear Sir:

I liked the objective treatment of the Soviet Union [Special Report on Russia *BW* Oct. 28 '61, p. 52; Nov. 4 '61, p. 50] and approve the way you pointed out some Soviet accomplishments. The Russians are not stupid people; look at their chess players and mathematicians. They are potentially serious competitors.

Currently, they are working hard to catch up with us in various fields which require copying and duplicating to a large extent. They are not yet initiating. The ratio of Nobel prizes indicates this. Whether they can initiate, time will tell.

However, very little the Russians do is applauded—we needle and belittle, emphasize failures and shortcomings, and this breeds . . . a "we'll show you" attitude.

I don't like or feel safe with Russian Communist methods, but I also know it is poor psychology to knock a competitor. I have become skeptical of many of the reports on Russia. Yours was the first that sounded based more on fact and less on brainwashing.

A. I. Applebaum  
Consulting Chemist  
Lambertville, N. J.

Dear Sir:

Your report . . . is well written and most interestingly presented.

Neil McElroy

Chairman of the Board  
Procter & Gamble  
Cincinnati, Ohio

Dear Sir:

. . . I find it very interesting and well done.

Richard H. Davis  
Department of State  
Washington, D. C.

Dear Sir:

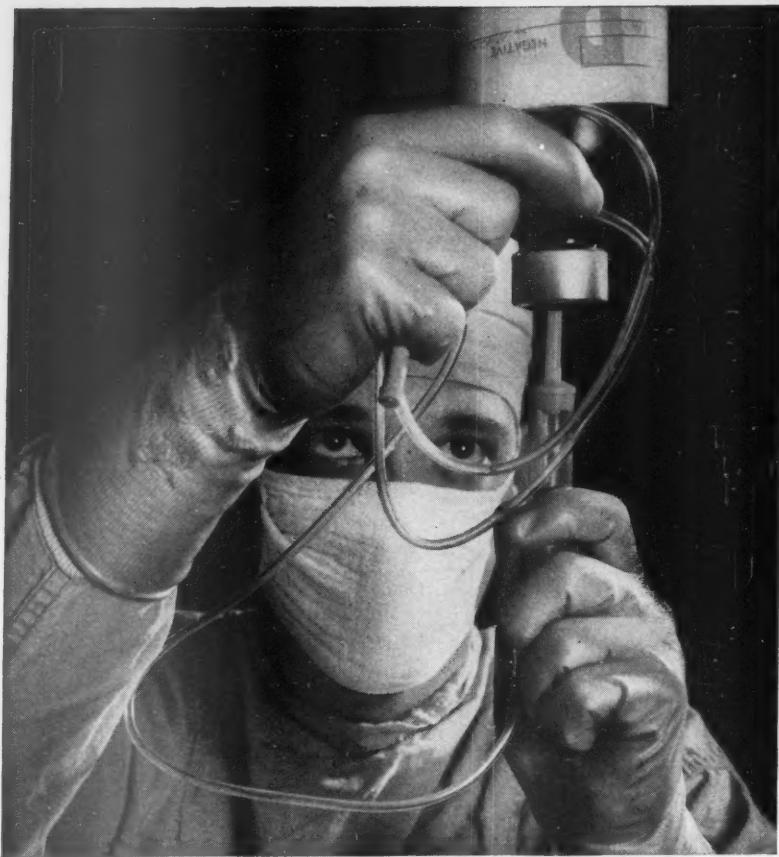
. . . A well prepared and comprehensive approach to a vital issue of the day . . .

John R. Host

Assistant Professor  
Montana State University  
Missoula, Mont.

Dear Sir:

Western businessmen are and will continue to compete with this strange animal—the Russian business structure. We must know the nature of the beast in order to understand the artificial influences,



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often disruptive, that can be brought by the U.S.S.R. to bear on free world markets.

Thank you for another outstanding example of reporting excellence.

Charles E. Pollard, Jr.  
Burlington, N. C.

Dear Sir:

We read your article on the comparison of Russia and the U.S. Your article seems to suggest that the abacus is an old-fashioned device. We would like to know why you infer this. In our seventh grade math class, we use the abacus for schoolwork, and we all enjoy using it. We read an up-to-date article in a magazine telling about soldiers at Moffett Air Station. They preferred the abacus to the computer. . . .

Class 7-4

Masuk High School  
Monroe, Conn.

■ The abacus has been around since the 6th Century B.C., at least—and that makes it pretty old, as fashions go.

Dear Sir:

I intend to circulate this article among our marketing executives so we will all have a better idea what our "competition" is doing.

John C. Tobin

Product Manager  
Shulton, Inc.  
Clifton, N. J.

## Round robin logic

Dear Sir:

Your article on price discrimination [BW Oct. 28 '61, p. 36] appears to have omitted a very far-reaching effect of this decision.

Sunshine Biscuit is forbidden to cut prices to get new customers. Since intentions are most difficult to prove in any tribunal, how does any company justify any price reduction even though it is based purely on process, design, or marketing improvements which result in reduced costs?

Further, if only "defensive" price cutting is permitted, then by implication the competitor who started the chain reaction must be open to FTC action. The obvious result can only be strong federal encouragement of price movements in only one direction—up!

The final step in this silly Round Robin of logic is to attempt to equate it with the proclaimed anti-inflation drive.

Richard J. Kadison  
Sea Mate Products Co.  
Clarks Summit, Pa.

# Business outlook

BW

November 18, 1961

## New car sales encourage Detroit to build stocks

Automobile manufacturers are planning to increase dealers' stocks of new cars—but not so rapidly as to glut the market as they did last year.

Fortunately, they are starting from a comfortable stock position.

Partly this is due to the strikes that handicapped the companies in putting adequate supplies in dealers' hands. But it also traces in good measure to a much better clean-up of old models this year.

Thus, it is estimated that dealers started November with 660,000 to 670,000 cars on hand—and only about 125,000 were 1961 models, according to Ward's Automotive Reports.

How many cars will the manufacturers feel they can safely add to those now in dealers' showrooms? That's the key to the output picture.

One leading trade magazine estimated a couple of weeks ago that November production would be about 675,000 cars. That would be enough to increase field stocks by fully 150,000—a pretty fast buildup.

Current production, however, looks more like 625,000 cars this month.

Monthly additions of, say, 75,000 to 100,000 new cars through January would send stocks of U.S.-built cars up toward the million mark. Last year they were above 900,000 going into November.

## Some cars still in short supply

Auto output shows signs of settling down at its recent level of about 150,000 cars a week. But that doesn't mean that each and every model is rolling off production lines at the same rate each week.

The press to catch up affects mainly General Motors and Ford. They also are pressing to get their new "in between" Chevy II and Fairlane into the showrooms in numbers to test their popularity.

Meanwhile, production of some standard models and almost all the compacts has been cut back from the best recent levels.

Compacts, by the way, seem to have fallen away from that 38% share of the market to which they shot in late summer. Now it's closer to 33%.

Underpinning auto production is a confidence born from dealers' reports on October sales despite shortages of many models most of the month. The last 10 days of the month were particularly encouraging.

The industry estimates that dealers delivered some 535,000 new cars last month. Even though registrations may not confirm quite such a gratifying figure, October unquestionably was a good month by any standards and particularly hopeful in view of the supply problems.

Suppose registrations are no better than 500,000 U.S.-built cars. Add on 30,000-odd for imports and you have the third or fourth best October in the history of the auto industry.

## Autos help push retail sales off dead center

Last month's revival in autos helped retail sales break through the ceiling that has hovered over them for the past year.

In fact, retail establishments rang up the best take in 18 months during October, thereby nourishing the hope that, at long last, the consumer is in a spending mood again.

Sales approached \$18.6-billion (after allowance for seasonal and trading-day differences), thus earning second-place on the record. April, 1960, still

## Business outlook Continued

holds the top spot with \$18.9-billion (a bulging mark in which was included an extraordinarily late Easter).

October's strong showing pushed the ten months tally to within 1% of matching last year's January-October count, unadjusted.

### Durable goods record best gain in two years

Sales of durable goods by all types of retail establishments posted the biggest monthly gain in two years, thanks to the pickup in autos.

At better than \$5.9-billion, seasonally adjusted, October hardgoods sales were \$356-million above September (when consumer reluctance on some big-ticket durables was still etching furrows in many a retailer's brow).

What's more, sales last month came within \$147-million of October, 1960, which was the last time that hardgoods sales broke through the \$6-billion mark (all figures seasonally adjusted).

Sales reports from automotive retailers edged ahead of the year-earlier month for the first time since December, 1960.

Consumers bought \$3.3-billion worth of new and used cars and accessories last month—some \$27-million more than in October, 1960 (without adjustment or allowance for trading days).

Even if auto sales continue at October's high rate, there's no hope that sales for the year will pull even with 1960. The dreary performance in the first quarter nipped that possibility at the start.

So far this year, sales of automotive retailers are running almost \$3-billion behind 1960. It would take a total of \$9½-billion during November and December to match last year. And no one expects anything like that.

### Big stores lead softgoods rise

Consumer purchases of nondurables continued to run in the same narrow range where they have fluctuated for a year and a half—between \$12.4-billion and \$12.7-billion, seasonally adjusted.

Still, October's report from all types of stores handling softgoods included some notable bright spots.

Department stores, for example, hung up a 6% gain over October, 1960.

These stores led all other types of retailers in emerging from the recession early last spring. Sales have held up well ever since.

Apparel stores, too, turned in a healthy count last month, despite unseasonably warm weather that delayed purchases of winter clothing. Sales ran about equal with October, 1960, when temperatures were lower.

### Farm net rises, to hold in 1962

Buying power of the farm population next year should be just about what it has been in 1961, and 1961 is substantially better than 1960. These are among the prognostications the Dept. of Agriculture customarily makes along about this time of year as it takes stock and looks ahead.

In the stock-taking line: The department declares that farmers' net income this year should top the \$11.7-billion earned in 1960 by just about a billion dollars.

And looking ahead: The dollar return in 1962 should be about the same; the only reason it might not go so far would be rising prices.

The Agriculture Dept. hardly can hope that weather will smile so broadly on farmers as this year; the expectation is that crop marketings next year may be a bit smaller with prices much the same.

# Tax change loses zest

**Even the watered-down version of the Treasury's original proposal may not be pushed to floor of the House now**

**The Administration is faced with deciding whether to put major effort behind the tax package or other measures**

**If it decides instead to fight for reciprocal trade, the only gain to business may be more liberal write-offs**

**The Kennedy Administration** is having second thoughts about the neat tax program it had planned to wrestle through the 87th Congress.

This week, Administration aides and Democrats in the tax-writing committees are wondering whether the highly controversial tax issue is worth the fight that would have to be waged and, even if the fight is finally made, whether a worthwhile tax bill can actually be passed.

Thus far, the tax ideas have not caught fire, and there's a feeling that, as other issues come to the fore, conditions become less promising for getting approval of even a small package of tax revision.

Last spring, Kennedy's New Frontiersmen, led by Asst. Treasury Secy. Stanley S. Surrey, came up with a step-by-step two-year tax revision and tax reform program they figured would be a giant leap toward making the tax system simpler, more equitable, more understandable, and a stimulus to economic growth.

## I. Three-part package

The tax package had, and still has, three parts.

The first, ticketed for quick passage by Congress, is the so-called tax revision bill, built around an 8% tax credit incentive to business investment. Loss of revenue was to be offset by closing tax loopholes.

Surrey's original proposal was complicated. It would yield up to a 15% credit on investment in plant and equipment, depending on how

much a company's spending exceeded its depreciation allowances. This met solid opposition, and the House Ways & Means Committee sweated it down to an 8% across-the-board credit only on spending for equipment—not for plant. It estimates a loss of about \$1.1-billion a year in tax revenues.

To increase revenues commensurately, the Treasury proposed a plan of withholding taxes on dividends and interest, taxing of profits of overseas subsidiaries as they are earned, a sharp cutback in allowable travel and entertainment expenses under expense accounts, and a few other measures to tax income that's not now taxed or to tax it at higher rates. These suggestions, too, have been drastically revised by Ways & Means, and some rejected.

**Next stage.** Passage of this limited revision bill was to pave the way for the second stage of the tax program: the really sweeping overhaul of the tax code that's to be presented to Congress.

This part of the package would provide what many tax experts have long been seeking. They say if the tax laws were rewritten from the bottom up, the taxable income base would be broadened so that tax rates, admittedly too high, could be reduced.

Over the years, the tax code has become a massive compilation of exemptions and special provisions. Many kinds of income escape any taxation at all, and a wide range of special situations enjoy reduced

rates. If these could be eliminated, the theory goes, personal and corporate income tax rates could be lowered without loss of revenue to the Treasury.

**Part three.** The third part of the package—and one that the Administration could put into force without waiting for Congress—would be to update and liberalize Bulletin F, the Internal Revenue Service guide to depreciation allowances on productive equipment.

**No dice.** Before Congress adjourned, it became clear that the Treasury's tax strategy had gone awry. Almost nothing in the package looked attractive to either the Ways & Means Committee or the businessmen who testified. The tax credit aroused no enthusiasm. The proposal to tax overseas profits was bluntly rejected. The expense-account tightening was found to be far too drastic. The proposal to end the dividend credit and the \$50 exclusion was turned down cold.

After months of gritty work, Ways & Means found that it couldn't, or wouldn't, vote a bill out of the committee, which is only the first of the hurdles such a tax measure must clear before it becomes law.

Even though the bill in its present "discussion draft" form is a wholesale watered-down of the Treasury program, the outlook for pushing the bill through Congress next year is highly uncertain. Now, as the Administration begins the rugged process of deciding what it really wants out of the upcoming session of Congress, some officials are wondering if they shouldn't concentrate their strength instead on the reciprocal-trade tariff fight, which also must get consideration and approval by the Ways & Means Committee.

**Consequences.** Some Democrats in the Ways & Means Committee would welcome such a decision. Says one, "I wouldn't be surprised

if it happened . . . and I'd be inclined to favor it." He says he's against "last-minute handling of important bills that have a deadline in them," as reciprocal trade has. Republicans on the committee are on record for jacking the tax bill.

Any decision to handle reciprocal trade first would in effect pigeon-hole tax revision for the rest of the session. This would wash out any Administration hopes for wholesale tax reform in 1963—or perhaps any other year soon.

Publicly, Treasury Secy. Douglas Dillon, Under Secy. Henry H. Fowler, and Asst. Secy. Surrey are still sticking by their guns, trying to round up some business support for the 8% tax credit. Their argument is that businessmen need no longer hold out for depreciation reform, now that the Treasury has shown its good faith by dramatically liberalizing the Bulletin F useful lives for textile makers [BW Oct. 14 '61, p32].

But there's a large body of opinion in the Administration and in Congress that says the depreciation move won't actually result in any significant additional support for the tax credit bill.

## II. Depreciation

There's no doubt that the Treasury will follow through on its over-haul of Bulletin F, which it began by liberalizing depreciation allowances on a variety of textile equipment. But there's a question of how much liberalization will be given other industries, and how soon.

Dillon and other Treasury officials have said the ruling for textiles represents a general reduction of 40% under previous levels. They refer to the 15-year write-off now allowed on looms and other equipment previously listed in Bulletin F at 25 years or more. Actually, Treasury studies found that the average tax life allowed for this equipment by IRS agents—regardless of the Bulletin F figure—was around 18 years. Thus the textile reductions in useful lives come closer to 16% than 40%.

**Rule of thumb.** When officials are asked if the textile pattern is likely to be applied to other industries, they say they have no way of knowing until each industry is studied. But in answering questions about the possible revenue losses involved, they use "just for illustration" an average 10% reduction in useful lives. (Based on roughly \$30-billion of depreciation allowances taken each year, this would mean a \$3-billion increase in allowances and a theoretical \$1.5-billion tax loss to the Treasury.)

Treasury officials aren't fussing much about such estimates of losses in revenue. Dillon emphasizes that the additional cash flow generates additional sales and profits that offset the tax cost of liberalizing depreciation. Dillon also cites the additional profits generated by the across-the-board stimulation of the economy that is supposed to stem from larger investment in capital plant and equipment.

**Others are waiting.** There's another fly in the depreciation ointment, though—and this is the slowness with which the Treasury and IRS officials are moving on liberalized allowances for industries other than textiles. There's a lot of talk about how complex and time-consuming the job is.

Already, other industries are pressing them for rulings. The railroads are being considered now. The impression is that rulings on railroad equipment may be months off—and perhaps not very helpful to the industry when they are made.

Some Treasury officials indicate, however, that the technical problems of revising Bulletin F can be exaggerated. Once they have in hand reports showing what IRS agents have allowed as variations from Bulletin F in other industries, a fairly speedy treatment can be expected, they say.

A showdown on all this is likely to come shortly after Congress convenes next January.

The tax-writing legislators will be acute to any indications of Treasury foot-dragging on revision of Bulletin F, which they have been urging on the Treasury for years.

## III. Next year's tax bill

Treasury officials have been hoping to win some business support for the 8% tax credit, which is the key proposal in the tax revision package the Ways & Means Committee sweated over this year.

So far, they have no reason for optimism. The Administration is still looking for the first big name in business to come out for the bill. Some committee members say they expect businessmen to get behind the tax credit now that useful-life allowances on capital equipment are being shortened. "After all," Treasury Dept. officials say, "it's ridiculous for them to fuss now about the form the tax credit takes."

Others, though, figure that many businessmen won't back the tax credit if they already are getting what they really want in shorter useful-life depreciation allowances.

**Subject to change.** The tax bill's

many provisions are all subject to change. The tax credit itself may be revised. Ways & Means member Eugene J. Keogh (D-N.Y.), among others, has suggested that the tax credit be applied to capital plant as well as equipment, as the Treasury first suggested. The Treasury would go along with this, but might propose a 7% credit, instead of the tentative 8% in the committee draft for equipment alone.

Kennedy wants the \$1.1-billion revenue loss through the tax credit provision to be offset by revenue-raising amendments, particularly some scheme for withholding federal income taxes from dividend and interest payments.

Democratic and Republican members of the committee favor dividend withholding of some kind. They tell constituents that such a proposal would not impose new taxes but would only obtain taxes on billions of income that taxpayers aren't showing on their returns.

**Food for argument.** Other revenue-producing provisions are highly controversial. Many Ways & Means members say that the withholding in dividends and interest payments may be unnecessary, now that the Treasury is beginning to apply automatic data-processing to tax returns.

They reason that this kind of policing and cross-checking will ferret out much of the income that is now going unreported and untaxed. Treasury officials disagree; they say their new computers shouldn't be burdened with a job that can be handled more simply and effectively through withholding.

Expense account deductions, under the committee draft, would be allowed only if the taxpayer proves that they were directly related to the production of revenue and not merely for goodwill. Committee members say this isn't at all satisfactory and much more study is needed.

The Treasury would like to push the tax haven proposals that are close to Kennedy's heart, but Ways & Means members who have spent years trying to spur U.S. investment abroad show no inclination to change the rules now.

While the committee members keep resisting, Surrey keeps pressing for adoption of more of the Treasury's original proposals—an end to the dividend credit and exclusion, a flat ceiling on deductions for food and lodging while on a business trip, and a revision of the credit to give more benefits to a company that is spending more now than it has in the past.



Crash over New York, wrecking TWA Constellation (above) and United jet, killing 133, spurred steps for better air control

## Switch on air traffic control

**Kennedy task force rejects earlier proposals to modernize control system, lays out a \$500-million five-year program using radar and general purpose computers**

**Last December's** fatal collision of two commercial airliners over New York City dramatized for all to see the inadequacies of the existing system of air traffic control. The collision took 133 lives, sent a Trans World Airlines Constellation crashing into a Staten Island field (above), and a United Air Lines DC-8 jet into a crowded Brooklyn street [BW Dec. 24'60, p70].

What made the warning unmistakable was this: It was the first air collision in which both planes were under control from the ground.

Partly as a result of the crash, a Presidential task force this week laid out a five-year, \$500-million program for modernizing air traffic control to cope effectively not only with current traffic needs but with the future workload—expected to increase by 300% by 1975.

Pres. Kennedy followed through

by giving Najeeb E. Halaby, chief of the Federal Aviation Agency (FAA) a mandate to proceed with the plan, subject to Congressional approval of the necessary funds.

**New direction.** The task force, known as Project Beacon, turned in an entirely new direction in its proposed overhaul of air traffic control, rejecting earlier proposals.

Though the group set a \$500-million price tag on its plan, it said FAA is already budgeting \$250-million of this. That leaves an additional \$50-million a year over the five years proposed for carrying out the plan.

Headed by Richard R. Hough, vice-president-engineering of American Telephone & Telegraph Co., the task force reached these two controversial conclusions:

- An ambitious modernization program begun by the Eisenhower

Administration in 1958—to become partially operational early next year and fully operational in 1963—pursued the wrong path and should be dropped. Much of the research and some equipment for this program—known as Data Processing Central (DPC)—can be used in the future, but essentially the effort is a bust. General Precision Laboratory was the prime contractor for DPC.

- The idea of adapting SAGE, the big Air Force electronic defense system against manned bombers, for traffic control should be dropped—except for using its radar network. Because SAGE is a "system in being," FAA and the Air Force had initiated a program under Pres. Eisenhower to explore its adaptation as a possible alternative to DPC. The study was directed by the nonprofit MITRE Corp.

Instead, the Beacon group called

for a reorientation of efforts to improve the traffic control system. This switch of direction delays full realization of a new system until 1966.

Without saying so explicitly, the task force left no doubt that it considered three years of research and development effort under the Eisenhower Administration misdirected. It did not say, nor would FAA, how much had been spent on this effort.

**Controllers' task.** In all the proposals for improving traffic control, key elements are automation of much of the ground controller's work, and improved methods of giving him a picture of what is going on in the sky.

At present, the traffic controller performs his job by working from a flight progress strip on which he enters by hand basic information on a plane's flight. The initial data is provided by the pilot's flight plan. This is updated by any necessary deviations, and by position information as the plane reports in by radio from various check points.

The controller thus is burdened with a vast amount of bookkeeping and communicating with pilots. This is in addition to his vital tasks of watching for conflicts that could lead to collisions, and maintaining efficient traffic flow.

Radar is used as a supplemental tool for following flights on major transcontinental airways and for operations at and near terminals. But generally the detection of conflicts is a manual operation relying on the headwork and memories of hard-worked controllers.

**Basic fault.** The DPC system represented the first major attempt to relieve the controller of much paperwork and to assist him in decision-making. It was built around a special purpose digital computer that would accept and print out flight strips, automatically update them, probe for and warn of conflicts, and assist in flow control.

The Beacon group approved the general effort to automate the controller's clerical duties. But it faulted DPC on a basic point—for continuing to rely on position reporting from pilots—and therefore on flight progress strips—to enable controllers to follow flights.

**Radar to the fore.** Under the new plan, radar will become the primary means of traffic control. The controller will watch a radar scope that will serve as the primary display for information; flight progress strips will play a secondary role. Nationwide radar coverage will be obtained by combining FAA's existing en route and terminal area radars with those of the SAGE system.

Computers will perform clerical tasks, but they will be off-the-shelf, general purpose computers.

The idea is to give controllers an electronic picture of the flight situation in the sky in addition to providing them with an "electronic slave" for paper work.

Because existing radar provides speed and bearing information but cannot indicate altitude, the task force called for development of altitude-reporting beacon transponders, to be carried in aircraft. These would provide coded identity information on planes and would telemeter altitude data from a sealed aneroid altimeter.

The report said studies indicated that a short-range beacon with a built-in altimeter could be installed in aircraft for no more than \$500.

With continuously displayed information on a plane's position, together with the customary flight plan, the need for frequent communication between controller and pilot will be sharply cut.

**Air control and SAGE.** While calling for use of the SAGE radar network, the task force rejected the idea of adapting SAGE computers and other equipment for traffic control. Its main reason is that the Defense Dept.'s "plans for future use of SAGE appear to be in a state of flux and uncertainty."

There was strong sentiment within the Pentagon for adapting SAGE—designed for protection against bomber attack—to traffic control. The Pentagon forced a two-month delay in release of the Beacon report while this issue was argued. But FAA and the White House agreed with Beacon that:

- As long as SAGE has a defense mission, traffic control would play second fiddle.
- Developing a new traffic control system will be cheaper in the long run than adapting SAGE.

**New rules.** The Beacon group also proposes a remapping of the aerial highway system. Traffic control will be extended to all aircraft flying above 14,500 ft. and to those above 8,000 ft. on crowded airways. The right of planes flying by visual, rather than instrument, flight rules to enter controlled airways will be limited.

The stacking of planes over airports while awaiting landing clearance will be eliminated by creating arrival and departure "ramps"—special airlines that will radiate downward a long distance away from air fields. Planes will be assigned ramps according to types, so that there will not be a mixture of fast and slow, large and small planes on the ramps.



**Convertible Notes**, a combo of officials of Midwest Technical Development Corp., takes over Minneapolis club.



**Drummer** Willis K. Drake, Midwest Tech vice-president, organized band after his wife gave him a set of drums.



**Trombonist** Gordon C. Paske, Midwest Tech treasurer, is a serious musician, played with Minneapolis Symphony.

# Executives' band hits the right note

Combo of top officials of Midwest Technical Development Corp. huffs and puffs to entertain presidents of companies that Midwest Tech invests in

**The Minneapolis market** in new local securities [BW Mar. 25 '61, p. 137] calmed down during the summer, but a "new issue" last week was launched with all the hoopla of a Hollywood premiere (pictures).

It was Convertible Notes, Inc.—a straight-faced gag played for all it was worth by a bevy of associated vice-presidents of Midwest Technical Development Corp.

Convertible Notes was incorporated in 1960, the brainchild of Willis K. Drake, 38-year-old Midwest Tech vice-president, whose wife had given him a set of drums. Drake found jazz-making company in adjoining vice-presidential offices.

Drake, who serves as Midwest Tech's promotion director in addition to other duties, persuaded Convertible Notes to sponsor a public "stock issue" as an entertainment gimmick for a meeting of presidents from 26 scientific and technical com-

panies in which Midwest Tech has investments. He decided to book the band into Freddie's, a Minneapolis night club, for a three-night stand.

A formal offering was made of "100 shares of an uncommonly good time," priced at \$30 a couple, and including food, drink, and entertainment. There even was a dividend—a record album of the evening's music, titled Bourbon Street Meets Wall Street. There was a full house opening night, and a local broker more than fulfilled the guarantee to the club with sales to avid "investors" for the second and third nights.

The band specialized in a subdued Dixieland—what one unfriendly critic called a "tired businessman's beat" version. But the band's coach explained that the players lacked "spank" because he had told them not to blow too hard. "Four hours is just too tough for them," he said.



Band plays at Freddie's night club, where "investors" paid \$30 for "100 shares of an uncommonly good time."



Tuba player Neil Giere, a cost analyst at the University of Minnesota, is one of three "outsiders" in the band.



Pianist Robert H. Anderson is a local stock salesman. Like other members of the combo, he carries a union card.



Guitarist Glenn W. Keller is an electrical design engineer at Telex, Inc., a company Midwest Tech invests in.



Trumpeter Arthur Smith, Midwest Tech management expert, once led a band known as the Silver Nighthawks.

# CAB looks for light on Northeast tangle

Agency orders airline, Atlas Corp., and Hughes Tool to give full report on their complex relationships.

The cash-hungry carrier's aid from Hughes is threatened

**The financial plight** of Northeast Airlines reached a crisis this week.

Hughes Tool Co., which has a financial interest in the airline, has been keeping Northeast afloat since early October by paying directly, or by guaranteeing payment, for the airline's fuel bill and other debts. But because the Civil Aeronautics Board raised a question about the propriety of this, Hughes has cut off its aid, and Shell Oil Co. now threatens to stop fuel deliveries unless Northeast can find the cash to pay for them.

Toolco, wholly owned by Howard Hughes, has just warned CAB that without a resumption of its assistance—at least until yearend, when Northeast's traffic picks up because of Florida's winter season—the airline will go under. It asked CAB to review the situation and make a final determination by Monday on whether the Hughes company can, with legal propriety, go back to Northeast's aid.

**Interrelated.** Toolco holds 10% of the stock of Atlas Corp., which in turn owns 56% of Northeast.

When Toolco first asked CAB to sanction its assistance to Northeast, the agency hedged its decision. It said Hughes could make emergency funds available, but that circumstances strongly suggest that Toolco already is gaining control of Northeast without government approval.

The board said this is probably a violation of the Federal Aviation Act and of a long-standing order that Howard Hughes could not hold control of any airline other than Trans World Airlines, in which he already owns 78% of the voting stock.

**Loss grows.** On top of a substantial loss earlier this year, Northeast told CAB it had incurred a \$5.2-million net loss between April and November. It anticipates another \$1-million loss for the remainder of the year.

As of Oct. 31, it was \$6-million behind in its trade accounts. Most

of its advertising has had to be dropped just when its competitors are boosting theirs. Creditors holding liens on Northeast property—Chase Manhattan Bank, Vickers, Ltd., General Dynamics Corp., and General Electric Co.—have neither received nor sought payments since last summer. But this moratorium is informal and can be terminated at any time.

Northeast, smallest of the 11 trunk airlines, is fearful that withdrawal of financial aid by Toolco will touch off demands for cash from all of its creditors.

**In a corner.** How did affairs come to this pass? Even in 1933 when the company was founded as Boston & Maine Airways, with the Boston & Maine and Maine Central RRs putting up most of the money, it was not one of the industry's strongest. Stuck off in one corner of the country with no place in which to expand except into the teeth of vigorous competition, the company plodded along for years as a New England carrier with the aid of government subsidy.

Later, the government required all railroads to relinquish airline stock, and control passed to Atlas whose president was Floyd B. Odlum. Mrs. Odlum, better known as the aviatrix and cosmetics manufacturer, Jacqueline Cochran, is still on Northeast's board.

Early in the 1950s when Odlum was putting together an "empire" of uranium mines, he made a deal with Howard Hughes for the corporate shell of RKO Pictures Corp. The movie studio had previously been sold to General Tire & Rubber Co. In return for \$18-million cash, and a capital tax loss carry forward of \$30-million, Odlum gave Hughes 10% of Atlas' stock. This made Hughes a major stockholder in Atlas. But since he already owned 78% of Trans World Airlines through his wholly owned Hughes Tool Co., and since the Federal Aviation Act prohibits

one man from controlling more than one airline, without prior approval, he had to put his Atlas stock in voting trust.

**Divestment.** In a related development, the Board required Hughes to divest himself of his Atlas holdings by last May. This, however, has been thrice extended at Hughes' request. Now he argues that it should be rescinded because the original reason for the order no longer exists. He was obliged to put his stock in TWA in voting trust to satisfy terms of a loan to the larger airline [BW Dec. 10 '60, p40]. The Board nevertheless has told Hughes he may now keep his Atlas stock only until Nov. 30.

As for the affairs of Northeast, the airline in 1956 applied for—and was granted over the violent objections of Eastern and National airlines—the route from New York to Florida. Eastern and National had for years had the route to themselves. But there was a string attached. The certificate was only a temporary one, giving the airline five years in which to prove that it could make a go of the route. The five years are up next week. Northeast has been granted a further authority, however, to continue its Florida service until a decision has been made. Examiner's hearings are set for Jan. 9 and the decision is not expected before spring—which would give Northeast another crack at the heavy Florida tourist season.

**Mohawk offer.** But Northeast has other problems. Earlier this fall, Mohawk Airlines, a subsidized, local service carrier, offered to merge with Northeast and serve its New England cities—providing that the Board put these operations back on subsidy. As part of the same offer, Eastern and National said they would operate Northeast's New York-Florida service. In other words, they would have it to themselves again. In return for this, the three offered a complicated package of Mohawk stock; warrants to buy Mohawk, Eastern, and National stock at one third above the market price over a period that was to be specified; and notes [BW Sep. 23 '61, p36]. Northeast never accepted or rejected this offer, preferring to concentrate on dealing with Hughes.

Last week the three withdrew it "for the present." Eastern and National also asked the CAB to forbid Hughes to provide any financial aid to Northeast. Eastern asserted that by paying the fuel bill and underwriting credit Hughes was already moving into position of day-to-day control of Northeast and doing so illegally.

# SEC turns its guns on inside transactions

**In the first action of its kind, the commission suspends member of New York Stock Exchange firm for trading on the basis of inside information**

**Fresh from its attack** on brokers that allegedly have helped stock buyers escape margin requirements [BW Nov. 4 '61, p36], the Securities & Exchange Commission this week focused on another sorespot—trafficking in inside information.

In the first action of its kind, SEC suspended for 20 days a member of a New York Stock Exchange firm for trading in Curtiss-Wright Corp. on the basis of inside information. SEC Chmn. William L. Cary hailed the case as one of "signal importance to our administration of the Federal Securities Acts." But while the SEC move is intended to define more closely how brokers may use inside information, it could raise as many questions as it answers.

**Tipoff.** The insider in question is Robert M. Gintel, 33, a partner in Cady, Roberts & Co., New York brokers. According to SEC, Gintel sold Curtiss-Wright shares on Nov. 25, 1959, for discretionary accounts after he had received word of the company's dividend cut from a Curtiss-Wright director, but before news of the dividend reduction became public. The tip came from the late J. Cheever Cowdin, who was also a broker for Cady, Roberts.

All told, Gintel sold 2,000 shares for 10 accounts and 5,000 shares short, including 950 shares later allocated to his wife. Cady, Roberts says all the stock sold short was "against the box"—that is, there already were an equal number of C-W shares in the account—except for 950 shares.

The day before, Curtiss-Wright stock had risen sharply, following an announcement by the company of a new type of engine. But on Nov. 25, directors reduced the dividend to  $37\frac{1}{2}\%$  a share from  $62\frac{1}{2}\%$ . According to the SEC, Cowdin telephoned Gintel during a recess to tell him the news. The dividend actually was cut at 11 a.m., but through a communications foul-up, the news didn't reach the general public until almost

one hour later. By this time, Gintel had completed his transactions.

**Violation claimed.** SEC says that Gintel had no right to make any transactions because Cowdin's association with the firm, in effect, made Gintel an insider.

The law defines an insider as an official, director, or 10% stockholder of a corporation. SEC broadened this definition to include Gintel's relationship through Cowdin with Curtiss-Wright.

Because of this relationship, SEC charges Gintel violated the anti-

fraud provisions of Rule 10B-5 of the Securities Exchange Act of 1934.

Gintel contends that he had a fiduciary duty to his customers that overrode any obligations to buyers of Curtiss-Wright in the market that day. SEC, while admitting there was no evidence of a plot between Cowdin and Gintel, rejects his argument.

**Tougher line?** As SEC now sees it, persons will be considered insiders if they have a "special relationship with a company and [are] privy to its internal affairs. . . . Intimacy demands restraint." How far it will go in interpreting this rule is still a question.

For example, in recent weeks some brokers knew about the proposed mergers between Ford and Philco and Montgomery, Ward and Interstate Department Stores before there were any announcements. And an SEC attorney concedes you have to draw a fine line to determine whether brokers who acted on this information were in violation.

Indeed, there are many everyday operations on Wall Street that seem to fall into a gray area. And if SEC is going to get tough, brokers' activities could be cut sharply.

## Private line to Santa Claus

**Neiman-Marcus has a new service to help you select and deliver that confidential little gift**

**Are you contemplating** sending your favorite maharani or oil magnate a little gift this Christmas—and don't quite know what to get? And do you want your plan kept secret from your wife and secretary?

Neiman-Marcus this year is geared to take care of both these problems. Every fall, the posh Dallas store comes out with a show-stopper in its Christmas wish book. Last year, it featured "his" and "her" airplanes—a Twin Beech and Beech Bonanza. This year, the store decided that the airplane was a bit too much, but it wanted to come up with a collection of way-out suggestions. An ermine bathrobe (\$6,975, federal tax included) is one. The confidential shopping is another.

**New service.** Edward Marcus, executive vice-president, says the announcement of "a special new confidential service" is "to encourage other important customers who have special gift problems to use our services—it is not our business to ask why." He claims it is a service

that is not available anywhere else.

Marcus tosses out a few examples—such as the actor who decided to send a gift to a queen, and wanted the fact kept quiet. Another man sends his divorced wife a Christmas gift each year. "Of course his present wife might object if she knew that he was doing this," he says.

**Mechanics.** The mechanics of the confidential purchases are simple. A customer calls (or writes) the store and asks for G-7. He will get either Stanley or Edward Marcus. The customer outlines his problem, and the brothers come up with a suggestion. The gift is selected from the store—or arranged to be purchased elsewhere in the case of collections or paintings—and charged to the executive department. The executive handling the account then phones the customer and tells him the price.

When the check—addressed to G-7—arrives, it is cashed. The cash is taken to the bookkeeping department, but on the store records, it is a cash transaction.

# Liberte bids adieu

One more big liner leaves  
Atlantic trade, and  
only one bigger is to come

**Tears rolled down** the cheeks of smart French women, tricolor bunting flapped in the breeze, and the band played *Auld Lang Syne* as France's pride of the sea, the *Liberte* (pictures), slipped past the Statue of Liberty last week on its last voyage as a transatlantic luxury liner.

Passengers on the freshly scrubbed boat deck sipped champagne and bemoaned "the passing of an era." But down below, Raymond Fruitier, the first-class wine steward, shrugged his shoulders. "Sad for the *Liberte*," he said, "but luxury travel is not dead."

His words had a brave ring, and the 31-year-old *Liberte* (originally the German liner *Europa*) is to be replaced in February by the 66,000-ton *France*. But transatlantic sea travel has declined steadily, with economy-class air travel to Europe rising phenomenally, and only a few weeks ago, Britain's Cunard Steam-Ship Co., Ltd. [BW Aug. 5 '61, p72] canceled plans to build a 75,000-ton replacement for its *Queen Mary*. So the *France* might be the last superliner built.

**Smaller but roomy.** Yet, M. Fruitier may turn out to be right. Cunard is still considering a 50,000-ton liner that would carry 2,000 passengers—almost as many passengers as the 81,000-ton *Queen Mary*—and that would make it hardly less of a superliner than the 52,000-ton *Liberte*.

Because of design improvements, the superliners of tomorrow may be lower in tonnage than the giants built in the 1930s, yet carry nearly as many people, in as much luxury. Italian Lines, for example, has two ships on the ways that will displace about 43,000 tons and carry 1,800



**Captain's table** was elegant at dinner dance given on last night in port by the Lycee Francais. This first-class dining salon served famous cuisine.



On night before last sailing, the Liberte is ablaze with lights at its Hudson River pier



Capt. Charles Ferrenbach waves farewell as ship squares away down river, with a city fireboat throwing jets of water.



Departing from harbor, Liberte shows her heels to farewelling dignitaries after dropping them off at the exit.

passengers each when they go into service in 1963.

The new France itself will depend more on a luxury market than its predecessor. Tourist accommodations will be upgraded to equal cabin class of most ships, and priced accordingly. It will boast such features as a fire hydrant for dogs and an alarm system in the nursery to summon nurses when babies' diapers become wet.

Says a French Line official: "This company has a lot of courage to spend \$80-million on a ship that will last 25 years, but we feel if people are going by ship, they want a real ship."

**Shift in habits.** Atlantic liners are carrying a shrinking share of an expanding travel volume. Passengers by sea, both ways, hit a peak of 1,032,400 in 1957, shrank to 871,600 last year, and are expected to be down another 8% or 10% this year. Since 1957, the patronage by classes has remained stable at 20% first class, 67% tourist, and the rest cabin or one-class.

The over-all decline in sea travel is attributed to the increase in seat capacity and the saving on fares of the transatlantic airlines. But the rise in traffic volume of the airlines has been far greater than the decrease in sea passengers—proof that air service has opened up Europe to a vast market of vacationers who previously lacked the time or money to go by ship.

Atlantic air traffic, both ways, topped sea travel for the first time in 1958, with 1.2-million passengers. Last year it soared to nearly 1.8-million, and this year's figure is expected to show a gain of about 3%.

**New lines for liners.** Shipping companies are trying new ways to bolster volume and profits. They are stepping up promotion of the "go by air, return by sea" formula, introducing a 25%-off excursion fare with 21 days ashore compared with the airlines' 17 days (round trip to England \$293, compared with \$350 by air), and diverting more ships into the winter cruise business.

This year, about 80 cruises are expected to carry well over 40,000 passengers to the West Indies and the Mediterranean. The United States, this country's largest liner, will make its debut in the cruise business, and the new France will do the same next winter.

While the airlines are taking away the ships' cabin-class customers, a hard core of travelers still view a luxury voyage as a way of life. "After all," says a French Line official, "it's the last vestige of gracious living."

# Why Big Steel yielded on tinplate

**Despite long-term preference for its own process, it adopts competitors' 'tinned-last' method for thin tin because uniformity is a must in canning field**

**A short, sharp** commercial tussle within the steel industry ended last week when U.S. Steel Corp. decided to make thin tinplate the way its competitors do.

The dispute revolved around whether it should be made conventionally and then double-reduced to final thickness or whether it should be double-reduced before being tinned electrolytically. That's no trifling point, especially with canmakers clamoring for thin tin. All 10 tinplate producers are committing serious investment for the capacity and capability they'll need. Also, material flow is involved since plant layout will vary depending on how thin tin is made.

The issue bloomed in August when one tinplate producer told canmakers it would furnish "tinned-last" material at going prices. Heretofore, all double-reduced tinplate had been "tinned-first" material. It was followed rather promptly by two more big producers. The rest of the trade fell in line until only USS held out.

With twice the capacity of its closest competitor, the Corporation might have been able to insist on its own process. But last week it went along with the competition even though it still insists that "tinned-first" has the greater economic potential.

**The reason.** USS gave in primarily because canmakers demand absolute uniformity—from all suppliers—so that their own very-high-speed, fully automatic, continuous equipment can operate routinely at or near capacity. The difference in the appearance of tinned-first and tinned-last material—a result of process differences—is great enough so that the canmakers want one or the other but not both.

Months ago, when the new equipment demands of thin tin became clear, one producer told the canmakers it felt it could produce the material at lower cost by tinning

last. This was fundamentally attractive to the canmakers because it meant they'd be getting exactly the same finish they'd been getting for years on conventional tinplate. Finish is one of two critical aspects of tinplate. And can lines are so thoroughly mechanized and of such high capacity that no one likes to switch materials without very good reason.

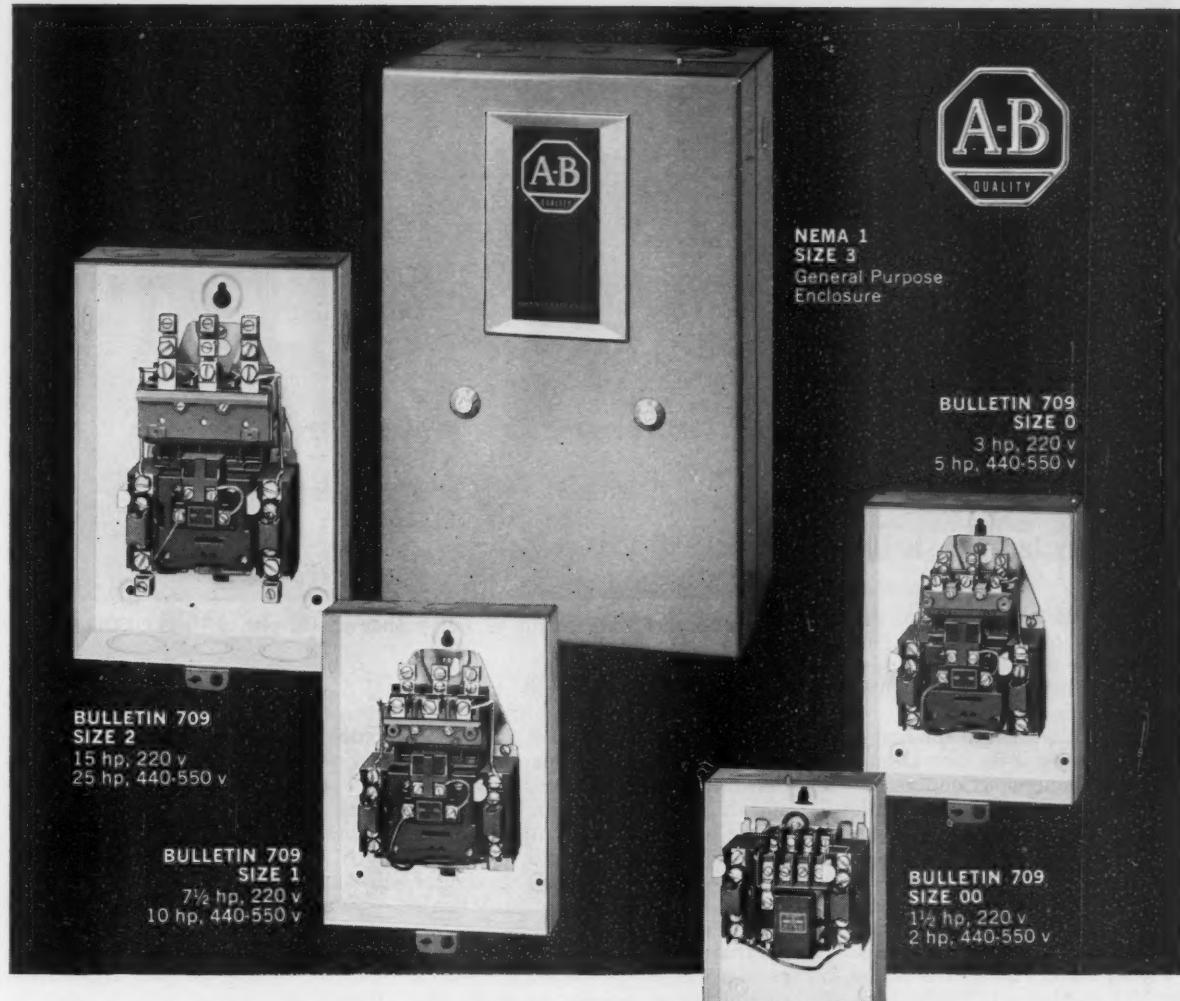
So the canmakers canvassed the tinplate producers. Widely, aside from USS, they said they'd produce either material at the going price. So the canmakers chose tinned-last. For them, that meant fewer customer problems involving a different appearance—and fewer potential problems in lithographing, soldering, corrosion resistance.

**Aluminum raid.** USS was first to offer thin tin. The Corporation burst into the market early in 1960—before it was ready to ship in volume, actually—in reply to a swift, sudden raid by the aluminum industry on the market for frozen citrus concentrate cans.

Steelmaker after steelmaker followed USS into thin tin. By pricing it very competitively indeed, steel made a shambles out of aluminum's profit potential in can stock.

Now USS may feel a price pinch itself on the thin tin. It priced the material on the basis of tinned-first costs and its long-range potential. But other producers—most of whose tinning equipment differs distinctly from the USS ferrostan process—think their costs will be better with tinned-last material. Whatever the cost picture, the tinned-first price will stick.

Ironically, some of the tinned-last proponents agree that, as thin tin moves into the gauges below 50 lb. per base box, the USS tinned-first process may prove the better one. That's far enough ahead to be no factor today. But it emphasizes the USS insistence that it picked the right process originally.



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# Setting growth goals

**U. S. wants to fix joint 1970 target for whole Atlantic Community, but some hesitate**

After just launching a drive to liberalize U. S. trade laws [BW Nov. 11 '61, p27], the Administration now is adding another new dimension to its foreign economic policy.

In Paris this week, at the first ministerial meeting of the new Organization for Economic Cooperation & Development, a group of high-level U. S. officials is trying to get agreement on an economic growth plan for the Atlantic Community. The goal would be a 50% increase by 1970 in the combined gross national product of the 20 OECD nations.

**Flying start.** The central figure in this U. S. initiative is Under Secy. of State George W. Ball (picture), head of the U. S. delegation at the OECD ministerial sessions on Thursday and Friday. By having OECD set a growth target for 1970, Ball hopes to get the new organization off to a flying start.

Ball believes that the move would inspire confidence in the future of the Atlantic Community, provide a sobering answer to Soviet Premier Khrushchev's grandiose economic goals, attract the underdeveloped nations, and ease the way for the drastic change Pres. Kennedy is planning to make in U. S. trade policy.

Agreement on the 1970 goal would involve, of course, a broad commitment by member governments to follow domestic and international policies consistent with the target. It implies a gradual tightening of monetary and financial cooperation, as well as harmonious trade policies, within the Atlantic Community.

**Wary.** At midweek, it was not certain that the OECD governments would go along with such a drastic commitment. Some delegations, no-



**Under Secy. of State George W. Ball pushes growth plan at Paris OECD meeting**

sitably the British, went to Paris somewhat wary of committing themselves at this time.

British officials apparently fear that too much talk about expansion and high growth rates might increase aggregate demand in Britain beyond current resources, thus generating new inflationary pressures and another balance-of-payments crisis. At midweek it seemed possible that Ball might get no more than an agreement in principle, and a committee of experts to study the growth problem.

**Totals vs. rates.** Ball's target of a 50% increase in total OECD output looks impressive in terms of gross figures. At constant prices, it would mean a combined GNP for the OECD nations of about \$1,350-billion in 1970, as against roughly \$900-billion this year. A 50% increase for the U. S.—requiring an average growth rate of around 4.5% a year—would put our 1970 GNP at \$780-billion.

If you put the goal in terms of raising the average annual growth rate among all OECD nations, it calls for an increase from the present average 4.2% rate of growth to 4.6%.

Setting such targets, however, does not assure results. Both France and West Germany have achieved a higher growth rate than 4.6% over the past decade, and by quite different methods.

**Real problem.** The figures show that Western Europe, minus Britain, already has achieved the required pace. The real problem is how to jack up growth rates in Britain and the

U. S., which have been running in recent years at roughly 2.5%. As both are burdened with large international commitments, they can't afford many risks with their currencies. And, in London's view, this limits what either Britain or the U. S. can do in pushing economic expansion.

Some officials in Washington feel that a 50% increase in GNP is not really such a bold goal for the OECD. These people argue that there's no reason why it can't be reached without ringing international declarations—that such declarations don't do much one way or the other to change the outcome.

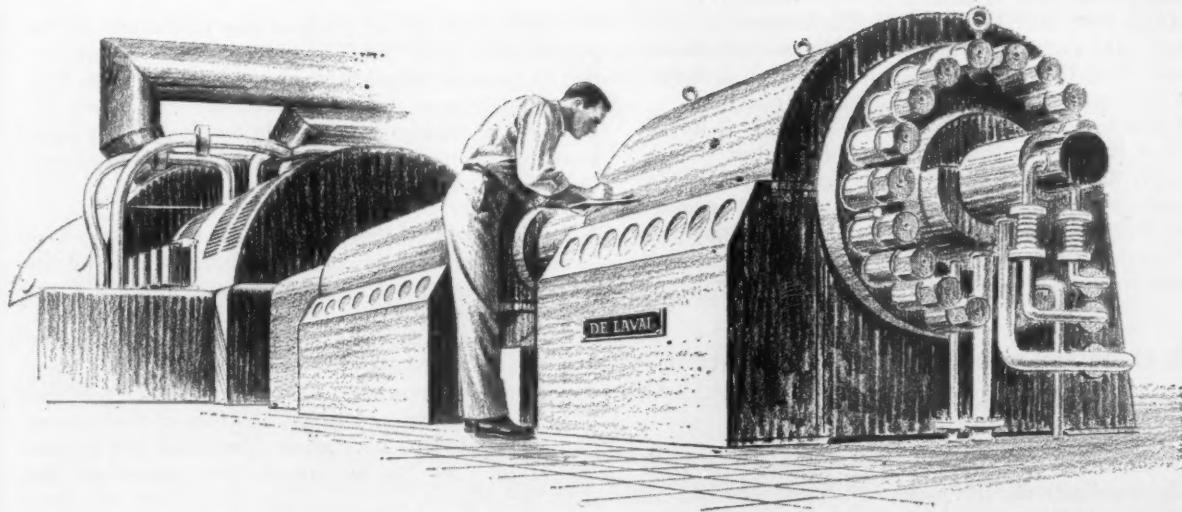
**Idea men.** The idea of getting OECD to set a growth target was launched less than a month ago. Late in October, during preparatory discussions about this week's session, Belgium's ambassador to OECD, Roger A. Ockrent, suggested that it might be a good idea if members agreed on an over-all growth plan, thus giving the first ministerial meeting real stature. John W. Tuthill, U. S. ambassador to OECD, was sympathetic to the idea, forwarded it immediately to Washington. Ball liked it and sent his proposals right up to the President.

By early in November, Washington's response went back to Paris in the form of a letter from Ball, along with a proposed communique to be issued at the end of this week's meeting. Both the letter and the proposed communique have been making the rounds of OECD delegations ever since.

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Electricity remains "America's biggest bargain" because of the applied engineering ingenuity of the nation's electric utilities and their suppliers. Case in point: the planned installation of high-capacity De Laval boiler-feed pumps at a prominent utility. For the first time in a U. S. utility, boiler-feed pumps will be driven through the governor end of the main steam turbine-generator. Costly energy-conversion processes will be eliminated; more electricity will be available for sale. The utilities will gain another tool in their continuing effort to hold the line on cost. Whether you have giant boilers to feed, or other problems involving rotating machinery, De Laval engineering ingenuity can help.

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# In business

**BW**

## Supreme Court to review two tax cases on convention, health deductions

The Supreme Court has agreed to review two cases involving the tax treatment of expenses for conventions and health trips:

- Lower court rulings upheld an Internal Revenue Service claim that \$650 expenses on an insurance agent's trip to a New York convention were really compensation and therefore taxable. IRS charged that a very small part of the convention time involved business.
- A U.S. Court of Appeals ruling upheld deduction of full travel and rental expenses for a heart attack victim who had wintered in Florida on the advice of his doctor, taking his wife and child along. IRS allowed the travel deduction but allowed only a third of the rental, arguing that the presence of the family was not part of the prescribed treatment. When the Court of Appeals rejected the IRS position, the government decided to appeal, citing contradictory court opinions in similar cases.

## Picture windows set for fallout shelters—and there's a motel investment angle

A couple of rather lighthearted notes were struck this week in the macabre symphony of fallout shelter news.

**Should you want a picture window in your shelter**—your private view of Armageddon—Pittsburgh Corning Corp. is prepared to supply it. The company's high-density (149 lb. per cu. ft.), solid glass brick is transparent; Civil Defense officials say that on an inch-for-inch basis it can be substituted safely for concrete.

**If you have \$5,000 to invest**, you can sink it in the north-of-Boston General Putnam Motor Inn, which not only has rooms that double as fallout shelters but an underground blast shelter with room for 140 people. Your \$5,000 entitles you to a room; for every day you don't occupy the room, the motel pays you \$1—which figures to a 7%-plus return.

## U. S. aluminum industry asks government to help diffuse impact of imports

U. S. aluminum producers and fabricators, with their trade organizations, this week asked the government for help in diffusing the impact of increasing imports.

Production in the U. S. is running around 80% of capacity, with fabrication down to 50%. And, although foreign sellers are getting only about 3% of the U. S. market, the domestic industry claims that the impact is vastly more severe in single products and limited areas.

Here's what the industry is asking of the government:

- Help in getting overseas sellers voluntarily to hold

U. S. sales to "best year" limits, with regulated increases if U. S. consumption rises. Agreements would run for five years, starting in 1963.

- Persuade foreign companies that cannot supply their own needs but that ban raw metal imports to accept more U. S. aluminum.
- Boost to 25% the "buy American" differential on sales to the U. S. government, now at 6% generally and 12% for depressed areas.

The U. S. industry would also like to open wider markets by diversifying the limited flow of imports, so that they would not reach saturation at any one point, as they are said to do now for the circles used in making utensils.

## Business briefs

**Bell & Howell Co.** will enter the mail order business early next year with a line of some 100 consumer products, including non-photographic merchandise of other manufacturers. The nationwide program will be handled by a new B&H subsidiary—Robert Maxwell Co.

The time for a make-or-break decision is drawing near for the Air Force-AEC Project Pluto for development of a nuclear ramjet propulsion system. If the decision is to go ahead—as recommended by a Pentagon advisory committee—the project will spend more than \$300-million over the next three years to develop an engine for ground testing. That compares with this year's Pluto budget of \$32-million, and the \$100-million spent on it so far.

The Defense Dept. has clamped new restrictions on the patent rights [BW Oct. 21 '61, p115] of military contractors on space communications projects. This brings Pentagon policy more in line with NASA's, and allows the Pentagon to sublicense patents in the field to any company for commercial as well as military purposes—instead of the latter alone.

**A federal court trial** is expected to start this week in New York on criminal contempt charges made by the Justice Dept. against Olin Mathieson Chemical Corp. and Chemetron Corp. in connection with a 1952 antitrust judgment based on charges that the companies conspired to fix the prices of carbon dioxide. In the same case, Air Reduction Co., Inc., and General Dynamics Corp. have pleaded not guilty, and four of their executives have pleaded no contest. They will not be sentenced till after the trial of the two companies that deny the charges.

**The dragon of newspaper economics** this week bit a huge chunk out of Pittsburgh's 175-year-old morning Post-Gazette, but didn't swallow it whole. The Block brothers, owners of the P-G, have turned over the entire business and mechanical operation of the paper to Scripps-Howard's thriving Press, and agreed to fold their Sunday edition. The Blocks retain editorial control. Terms of the deal were not announced.

# Washington outlook BW

November 18, 1961

## Hopes dim for a short session of Congress

There's a wide gap between what White House strategists would like from Congress next year and what they're going to get.

They would like a brief disciplined session devoted to a few issues hand-picked by Pres. Kennedy, followed by early adjournment, with plenty of time for campaigning before the November elections.

Instead, they will be faced with a series of bitter running fights, Democrats vs. Republicans and Democrats vs. Democrats, on a wide range of issues. Early adjournment looks like a poor bet.

This week and next, Kennedy's aides are drawing up the list of legislation that will be on the "must" list.

So far, it's a remarkably short list—only three bills.

A new trade bill will be pushed as the headliner.

Medical aid for the aged is in second place.

Right now, the 8% tax credit for new plant and equipment expenditures is No. 3. But there are growing doubts about how hard to push it (page 23). Some Administration strategists argue that it's not worth the effort unless business opposition lessens.

## Kennedy's aides maneuver for pet projects

Cabinet members are maneuvering to get projects on the must list.

**Labor Secy.** Arthur J. Goldberg is sure his worker retraining bill will get one of the top priorities. With unemployment likely to be stuck at over 5%, it will be good politics to push through something that promises a better deal for the jobless.

**Agriculture Secy.** Orville L. Freeman, caught between his liking for high farm subsidies and stern orders from Kennedy to economize, will have to look for some sort of new legislation.

**Commerce Secy.** Luther H. Hodges has ideas for a new transportation policy aimed at bolstering common carriers as against private carriers.

**Postmaster General** J. Edward Day will be back with demands for an increase in postal rates. In light of the budget squeeze, he will get White House support.

**Defense Secy.** Robert S. McNamara will have a bill to renew the act providing for renegotiation of defense contracts. An expected move to liberalize the provisions of the present act will cause a rumpus.

## Defense spending rise slows, speeds up again

An unexpected hesitation in the rise of defense expenditures in the July-September quarter comes to light in budget figures. Some analysts are speculating that this slowdown contributed to what Administration economists now call the September-October pause in the rate of business improvement.

Planners had expected defense outlays to jump \$2-billion or better in the July-September quarter. This seemed reasonable, as they had risen \$1.5-billion in each of the two preceding quarters, and Kennedy has ordered additional outlays. The rise turned out to be a mere \$200-million.

Defense spenders don't have an explanation yet for the slowdown. But in October, the checks began to flow at nearly the expected level, and from now on the rise is expected to be a steady one.

The third-quarter quirk gives Kennedy almost a \$2-billion windfall in his drive to slow down the rise of total spending. It can easily be absorbed

## Washington outlook Continued

by unbudgeted increases elsewhere before the fiscal year ends next June, but is welcomed as offering at least some room for maneuver.

### Bolling may enter fight for leadership

Rep. Richard Bolling of Missouri may upset the plans of key Democrats in the House for a quiet transfer of power in the House of Representatives.

A slate composed of men now below Speaker Rayburn on the leadership ladder is in line to take over. Rep. John W. McCormack of Massachusetts would be advanced from Majority Leader to Speaker; Rep. Carl Albert of Oklahoma from Whip to Majority Leader; Rep. Hale Boggs of Louisiana from Assistant Whip to Whip.

Bolling's friends say he is ready to challenge the slate. He won't tackle McCormack, but is said to be planning a fight against Albert for Majority Leader. Albert's strength lies with Southerners and party regulars; Bolling would appeal more to Northerners and liberals. The fight could be bitter.

The White House is standing aside. Kennedy, when in Oklahoma recently, had public words of praise for Albert, while Bolling was guest at a White House dinner this month—pretty much of a square-off as politicians rate such matters.

### Goldberg tries to beat calendar

Time is running out for Labor Secy. Arthur J. Goldberg as first chairman of the President's Labor-Management Advisory Committee. He wants to get a series of committee reports on such topics as wages, prices, productivity, world trade, unemployment, and economic growth completed before he has to surrender the chairmanship. This will occur in February. At that time, Goldberg becomes vice-chairman, and Commerce Secy. Hodges becomes chairman.

Many of the reports are now being considered by the committee. But they still have to be acted on by the members and then cleared through the White House.

Goldberg originated the idea of the committee and has been the force behind its work to date. Hodges as chairman will be something of an unknown quantity. Under the committee's charter from Kennedy, Goldberg and Hodges are to serve alternate one-year periods as chairman.

Navy Secy. John Connally has been picked by top Democrats as the man to go back to Texas and heal the wounds of the party in that state. Connally is expected to resign as Navy Secretary next year to run for governor.

Connally, a long-time associate of Vice-Pres. Lyndon B. Johnson, would have the job of trying to stem Republican gains in Texas. Johnson hopes to show that the victory of Republican John Tower for the Senate earlier this year was a fluke. He has his eye on the Texas electoral votes in 1964 for Kennedy—and four years later maybe for Johnson.

### Connally is picked to lead Texas Democrats

### Tax collectors are waiting for a bonus

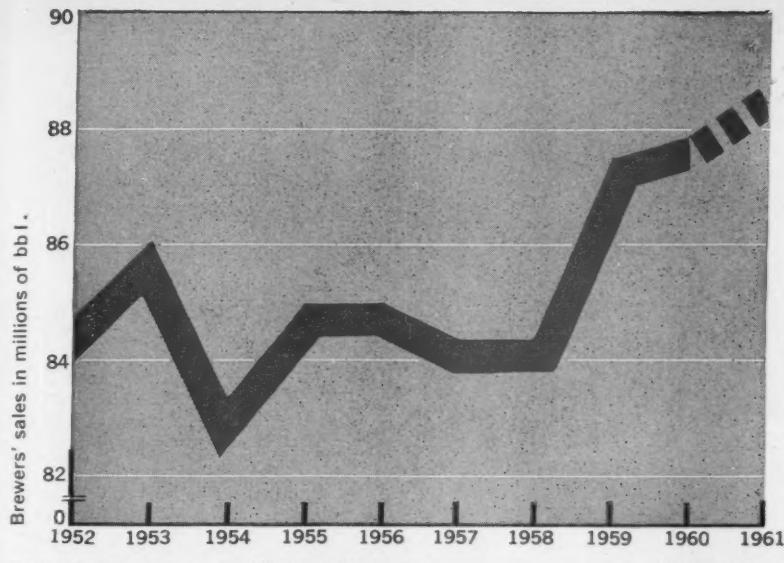
Federal tax collectors are looking for a bonus next year.

They think nervous taxpayers—confronted by the new automatic data-processing system of tax sleuthing—will begin to pay up voluntarily sums due on past income.

There's no promise of immunity in case of such voluntary payments, as there was under former laws. The American Bar Assn. thinks there are enough worried taxpayers to make immunity worthwhile again as a fixed policy.

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## Beer and ale sales head up



Data: U.S. Brewers Assn., Inc.; Business Week estimate

© Business Week

## MARKETING

# Bidding for a market with growth built in

**Beer sales spurt as war and postwar baby generations begin to reach maturity—with the big boom still to come; but brewers are moving in to help the growth along**

**For brewers**, some of the long-awaited glint of the Golden Sixties is beginning to show. After years of sales that bobbed up and down (chart), the line has hardened—upward.

Tax-paid withdrawals of malt beverages, tallied at the point the brews left the breweries, took a perceptible step forward in 1959 to set a new record of 87.6-billion bbl. Sales inched up again in 1960 to 87.9-million bbl. This year, on the basis of data for the first eight months, they should climb again, approximately 1%.

Some industries wouldn't find such a slow gain much to crow about. Brewers have a special reason for optimism. They credit the advances of the past few years to the fact that they are at last rounding a troublesome corner. From here on, the growth should accelerate till it hits a pace at which the Sixties

will live up in earnest to their "glorious" promise.

**Babies and beer.** What has stymied beer sales in a growing economy? Primarily, brewers have been battling against the odds of a stagnant market [BW Jun. 20 '59, p45]. The trouble dates back 20 years, to the slowdown in births during the Depression of the Thirties. Two decades later, this meant a decline in the young folk, beer's best market.

The real boom in the beer market is still to come. It takes 21 years to mature a crop of legal beer drinkers in 35 states; in other states, with various provisos, it may take only 18.

**Prodding the market.** However, as one leading brewer dourly comments, you can't count on growth just because the market is increasing. Potential beer drinkers are also potential soft-drink buffs, wine drinkers, liquor drinkers. So the industry is humming with develop-

ments to prod the market to reach for a glass of beer instead.

Acknowledged giant in the field, Anheuser-Busch, Inc., took a dramatic step a couple of weeks ago that underscores this kind of thinking. It began to test-market its prize brand, Michelob, in bottles in a few areas. The company has concocted a fancy, vase-like bottle for Michelob, has set a fancy price on it. In supermarkets, Michelob will sell around \$7.30 a case, twice the present price of A-B's premium Budweiser brand. Beer drinkers will pay anywhere from 60¢ to \$1.25 for an individual bottle.

**Behind the move.** Anheuser officials say the growth of expensive imports, retailing at around 75¢ a bottle, prompted this move. True, imports still represent a distinctly minor threat; they account for only one-half of 1% of the total market, according to U.S. Brewers Assn., Inc. But they have been growing.

Anheuser undoubtedly had other reasons. Sales of beer on draught have dwindled steadily over the decades as beer drinking switched from the tavern to the home.

So Anheuser-Busch labs worked overtime to find ways to pasteurize Michelob for bottling without hurting its special flavor. The company says it has at last accomplished this.

Competing brewers are intrigued, but skeptical. Some say at bottled Michelob prices, Anheuser-Busch may simply switch beer customers to a harder liquor.

So far, most brewers feel, imports have only nuisance value. "It is particularly irritating," says Henry E. Russell, executive vice-president of Carling, "to see someone pay 75¢ for a bottle of Heinekens." But most feel the big developments will continue to fall in the popular-price beers.

**Private labels.** In fact, a new development is shaping up at the bottom of the price barrel—the appearance of more beer under private labels. The big brewers say that for the present the smaller fry are supplying most of this market.

Figures, though, are hard to come by.

The St. Louis market—a big beer-drinking center—comes up with one clue. Private labels represented 1.6% of the area's total market in the first six months of 1960; a year later, they had risen to 2.8%. People's 9-0-5 Liquor Stores recently featured its private label beer at 5¢ a bottle. The result: a sellout.

**Comer.** Most brewers feel as little concern over private brands as they feel over imports. But most are pushing popular-price brands.

Anheuser-Busch's Busch Bavarian,

# How to show the sky in stereo



**Up till now**, radar has literally been blind in one eye. It lacked one of the prime dimensions—depth perception. Conventional radar could only show objects in two dimensions. Either direction and distance or height and distance.

This limitation often makes radar lag behind the pace of modern aircraft—forcing planes to slow down in the busy intersections over airport areas.

But now the other eye has been opened. Hughes' new 3-dimensional—or stereoscopic—radar presents a scaled-down "cyl-

inder of sky." Watching this radar, you could see the earth, the air space above and aircraft represented with a definition never before possible. The result: planes could move through busy intersections with new speed and safety.

This new radar display console—called Stereoscan—has two Hughes Tonotron\* picture tubes which are combined to make this startling 3-dimensional view possible. Because they remember images—they produce a radar picture where the "blips" leave contrails like a jet. It is these patterns

that clearly show the direction *and* altitude *and* distance which separates the planes.

This improved radar display is also more accurate, easier to view and can be used under normal room lighting.

**Electronics is our business.** A Stereoscan console, operating with service proven Hughes 3-D radar, has shown its potential at the Hughes, Fullerton, California facility. It is one more example of Hughes' ability to break ground in science—both for commercial and defense purposes.

Creating a new world with electronics

**HUGHES**

HUGHES AIRCRAFT COMPANY



Hughes 3-D radar display console can give a continuous view of sky activity. Integrated with a complete control system, it would tell air traffic controllers if planes were on a collision course. They could make swift decisions and direct air traffic in a fraction of the time it takes today.

\*Trademark Hughes Aircraft Company

introduced in 1955 in limited markets, is now selling in 15 states. The company does not give out figures, but it did let slip at its annual meeting last year that 1959 sales of Bavarian were slightly over 1-million bbl., of an 8-million total.

Jos. Schlitz Brewing Co., the No. 2 brewer in the nation, has stepped up promotional backing of its popular-priced brand, Old Milwaukee, which it revived in 1959. Schlitz is mum on sales, but one trade report has it that 1961 shipments of Old Milwaukee will quadruple those of the two preceding years.

**Bandwagon.** Miller Brewing Co., long a holdout against the popular-priced trend, got on the bandwagon this year. It bought A. Gettelman Brewing Co., adding three brands—two of them popular-priced—to its premium Miller High Life.

Carling Brewing Co., almost wholly owned subsidiary of Canadian Breweries, Ltd., has staked its growth on popular-priced beer—and has jumped from 62nd position in 1949 to No. 4 in U.S. beer sales in the process. All Carling's promotion for its Black Label brand has been pegged to the theme that this is a national popular-priced brand.

Carling is not forgetting the premium field entirely, however. It is test-marketing its Red Cap brand ale in Southern markets. An import of Canadian type, this has a taste quite different from other ales, Carling says. However, the company adds that ale accounts for only some 5% of the malt beverage market.

When Pabst Brewing Co. set its cap for Blatz, it hoped thereby to gain entry into the popular-priced field. Recently, too, Pabst has been advertising its Pabst Blue Ribbon, once a premium beer, at popular prices. For F. & M. Schaefer Brewing Co., Liebmann Breweries, Inc. (Rheingold), and P. Ballantine & Sons, the popular-priced field has consistently been the main target, though Ballantine's ale might rate in the premium category.

**New tacks.** Individual brewers have recently taken various tacks to grab more of the beer market. Fox Head Brewing Co. recently brought out a no-alcohol, low-calorie beer, to compete mainly with soft drinks. Piel Bros., too, came up with a low-calorie beer [BW Sep. 30 '61, p129].

The industry is still waiting for developments on so-called reconstituted beer, which permits brewers to ship in dry form for mixing at local bottling plants. Union Carbide Development Co. has a process for this, but is waiting for the government to lay down some ground rules.

**Battle at top.** Meanwhile, the big

brewers are continuing to reach out for broader markets. Carling, rated fourth in 1960, thinks it will give Falstaff a race for the No. 3 spot this year. It has been expanding plant steadily since 1954, now has seven plants operating coast to coast, with more on the way. Theo. Hamm Brewing Co. bought Gunther Brewing Co. last year. Both Schlitz and Miller have taken on some regional breweries as distributors. Perhaps the most unusual expansion of all came last week when Fox Head announced it has bought the Marrakesh Beach Hotel, luxury resort, in Jamaica. It also acquired Illinois Felt Co.

Profits, still hard to come by, foster the plant expansion to cut shipping costs. Several brewers have major modernization programs under way with the same end in view. Pabst credits its move of headquarters from Chicago to Milwaukee—with better sales, administration, and production coordination—for a hefty 120% increase in net profits for the first 1961 half over 1960's.

Just how the top 10 companies rank has to be a bit speculative since some give out no figures. The table below shows Modern Brewery Age's estimate for 1960 output:

Company and Rank	main brand	1960 output (millions of bbl)
1. Anheuser-Busch	(Budweiser)	8.5
2. Schlitz (Schlitz)		5.7
3. Falstaff (Falstaff)		4.9
4. Carling (Black Label)		4.8
5. Pabst (Pabst Blue Ribbon, Blatz)		4.7
6. P. Ballantine (Ballantine)		4.4
7. Hamm (Hamm's)		3.9
8. Schaefer (Schaefer)		3.2
9. Liebmann (Rheingold)		3.0
10. Miller (Miller High Life)		2.4

**Bigger pie.** The infighting to get a bigger share of the pie goes on unabated. Miller is talking of a 9% gain this year—without counting its Gettelman acquisition. Only Schlitz of the majors showed a barrelage decline in 1960; it switched ad agencies last June, from J. Walter Thompson Co. to Leo Burnett Co., Inc., with the avowed aim of recovering the No. 1 position. This week, Liebmann stole a march from Schaefer by signing up broadcasts of New York's Mets—the new York National League baseball team.

But happier days are coming. At least some of the competitive effort can now shoot for a bigger piece of a bigger pie. **End**

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# In marketing

**BW**

## Say it with liquor: New service lets you wire a bottle to your friends

For years flowers-by-wire service has been available to the public. Now it will be possible to send liquor by wire, as well, through a "beverage by wire" service started by the American Beverage Delivery Service, Dallas, Tex., a subsidiary of Dallas' Republic Standard Investment Co., Inc.

Under this system, a New Yorker wishing to send liquor to a friend or customer in Los Angeles can place an order in his local liquor store. The order is relayed by wire to Los Angeles and the dealer there takes care of delivery.

Myron Sacknoff, executive vice-president of American Beverage Delivery, says 1,100 retailers in 38 states had been signed up by last week—with some 400 more expected to join in the next week or so. The cost of active membership to the participating stores includes a \$50 membership fee and a \$300 performance bond deposited with American Beverage Delivery.

Sending liquor through the mail and transporting it across state lines are prohibited by federal law. The "beverage by wire" service gets around these prohibitions, and has received clearance from the Federal Trade Commission, says Sacknoff.

To deliver to dry portions of a mostly wet area, the dealer telephones the recipient explaining that "a gift for you, forbidden by the rules and regulations of your area, is waiting at the John Doe Liquor store."

American Beverage Delivery will act as a clearing house. The store in which the order is placed charges the actual price of the liquor, including federal tax, plus the state and local taxes of the city of delivery, \$1.10 service fee, and the price of the wire transmission.

## Computers speed up tedious job of selecting advertising media

The age of automation has reached the advertising industry.

Charles H. Brower, president of Batten, Barton, Durstine & Osborne, Inc., announced last week the development of a linear programming process, using electronic computers, that will quickly solve problems of advertising media selection that formerly took weeks or even years.

The process was developed in cooperation with C-E-I-R, Inc., an industrial and operations research firm [BW Nov. 12 '60, p.89]. The process offers advertising media directors "a power shovel instead of a spade" in dealing with media selection problems, says Brower. "The new BBDO method will make it possible to compare thousands of combinations a second and isolate the most efficient patterns."

In selecting media for its client, the agency shoots for the most efficient "media mix" possible—within a given budget. After it is understood what market the

advertiser is after, the media man is confronted with a tremendous number of possible media combinations to reach this market. For example: With two media available, the possible combinations are three—one or the other or both. But with 10 media available, the combinations possible become about a thousand. And with 20 media to choose from, there are over a million possible combinations. This is the legwork that the BBDO process accelerates.

BBDO plans to make available key details of the operation to all other advertising agencies.

In a related area, Central Media Bureau Inc., has been formed in New York to offer services to the advertising industry. It is backed by C-E-I-R, Inc., which holds half of its stock.

Through the use of the same equipment that is being used in the BBDO process, Central Media Bureau says it will speed up billings and payments for radio and TV spot commercials, and provide a high-speed communication of rate data to advertisers, their agencies, radio-TV stations, and their sales representatives.

In addition, the Central Media Bureau is offering ad agencies essentially the same service that the BBDO process offers—but only in radio and TV media.

## Humble joins the gasoline octane battle, but not at the top of the scale

Humble Oil & Refining Co. has joined the battle of the octanes—a battle that, during the 1960s, is focusing on the lower end of the octane scale.

Sometime before December, the Texas concern will introduce in Texas, Pittsburgh, and the Norfolk-Newport News areas a new grade, rated between its regular and premium gasolines. Texas stations will call the new grade Enco Plus; elsewhere it will be Esso Plus.

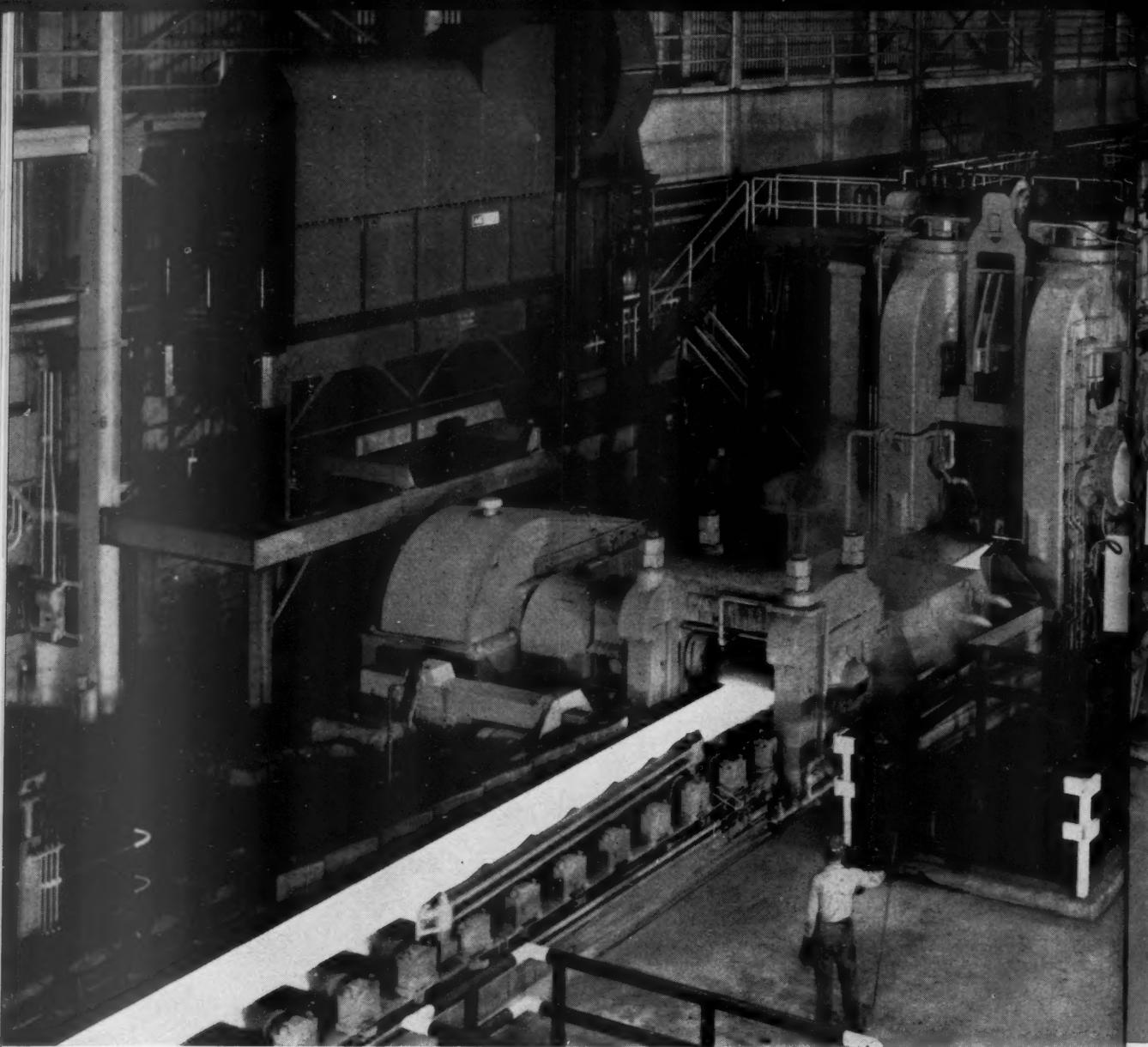
In these three markets, Humble will stop selling its super-premium Golden brand.

This experiment follows a move by Gulf Oil Corp. earlier this year, when Gulf introduced Gulfthane in limited markets to sell for less than any of its other grades. Gulf has since extended this program, knocking out its super-premium Gulf Crest in those areas as it did so.

## Marketing briefs

A&P last week began giving Plaid trading stamps of the E. F. MacDonald Stamp Co., Dayton, Ohio, in 101 of its New England division stores. The company declined to comment on whether the Plaid stamps would be given in A&P stores elsewhere.

Giant Food Inc., a 65-store food chain with headquarters in Landover, Md., opened a Super Giant discount center in Lanham, Md., last week. The new store offers everything from bobby pins to food to mink coats.



## SAVING YOU MONEY AT 40

The world's newest hot strip mill—Republic's 56-inch Warren (Ohio) mill—is rolling sheet steel as it has never been rolled before.

This mill saves you money by delivering steel that is uniform inside and out, physically and mechanically, from edge to edge and from end to end. Precision hot rolling temperature controls give you steel with superior drawing qualities. And, you are assured lighter, tighter oxide—consistently.

Adding substantially to Republic's hot rolled capacity, the Warren mill is powered to roll stainless and high alloys of the future as well as

standard carbon and silicon steels. The mill is "punch card" operated. Sheet steel is produced at 40 feet per second—can be supplied in larger, heavier coils that minimize your production changeovers and handling costs.

Republic produces carbon and high strength steel sheets and strip in widths to 90 inches; continuous rolled stainless steel 60 inches wide; bright annealed stainless in widths to 24 inches (and soon up to 60 inches). Republic also offers silicon steels and a wide range of coated steel products including continuous galvanized sheets, Galvannealed Sheets, and Electro Paintlok® Sheets.



Strong, Modern, Dependable



**X-RAY INSPECTION EQUIPMENT** in the Gadsden, Alabama, cold finishing mill monitors strip gage. Republic pioneered the use of this equipment to measure strip gage continuously during rolling operations. Republic also developed the high speed Wheeler method of continuous strip gage control.

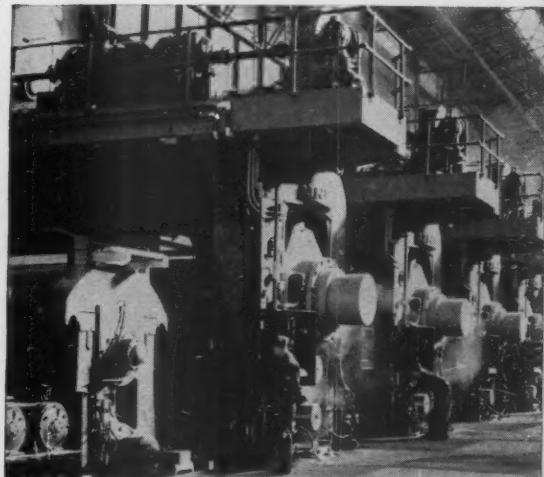
## FEET PER SECOND

The new Warren mill joins Republic's extensive hot rolling and cold finishing facilities in Warren, Ohio, Cleveland, and Gadsden, Alabama. For additional information, contact your nearest Republic sales office. Or, write: *Republic Steel Corporation, Department BW-2908, 1441 Republic Building, Cleveland 1, Ohio.*



# REPUBLIC STEEL

REPUBLIC HAS THE FEEL FOR MODERN STEEL



**WIDEST HOT STRIP MILL IN THE WORLD**—Republic's 98-inch mill in Cleveland, Ohio. A leading supplier of carbon steel, Republic is the largest supplier of stainless and alloy steels. More and more, Republic is using computer controls to assure highest possible quality of sheet and strip steel.



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# Western Electric changes its spots

The Bell System's giant equipment supplier is deep in transition to meet the age of electronics in communications. It means change on a vast scale

**Few company presidents** can stay as close to their company's products as H. I. Romnes, president of Western Electric Co., Inc., the manufacturing and supply arm of American Telephone & Telegraph Co.

The green telephone on the desk in front of Romnes (cover) is itself one of his company's major products. And the telephone's cord connects him directly with almost all the other products Western has produced. Together, they make up the \$24-billion plant of the giant Bell System.

Western supplied almost all the equipment used in the system, and installed most of the central plant. This is without doubt the biggest system job ever accomplished in the world, and the business of adding to it, maintaining it, and modernizing makes Western one of the world's largest manufacturers. Last year sales topped \$2.6-billion.

**Size of job.** At first glance, Romnes' job might seem simple to an outsider:

- He has only two customers—AT&T and the U. S. government.

- He has access to the world's largest research organization, Bell Telephone Laboratories, Inc. (jointly owned by AT&T and Western).

- His company has 8,300 patents in effect, 3,200 of them issued since 1956. Cross-licensing agreements with 750 other manufacturers give Western free use of the best in modern technology.

- Western has modern manufacturing facilities such as few companies can boast. Since 1950, Western has built 17 new manufacturing works, with 12-million sq. ft. of space, doubling its plant area. Older facilities have been almost completely renovated in the same period.

**Mass production** of phone dial rings at Indianapolis Works (left) has been highly refined over the years.

**Competition.** These things free Romnes from a number of worries that plague other company presidents. But Western Electric has other problems.

Since 1956, under a consent decree ending a seven-year antitrust action that originally sought to split Western away from AT&T, Western cannot sell its products on the commercial market. On the other hand, nothing prevents Bell System companies from buying from other suppliers if their equipment is demonstrably better or less expensive.

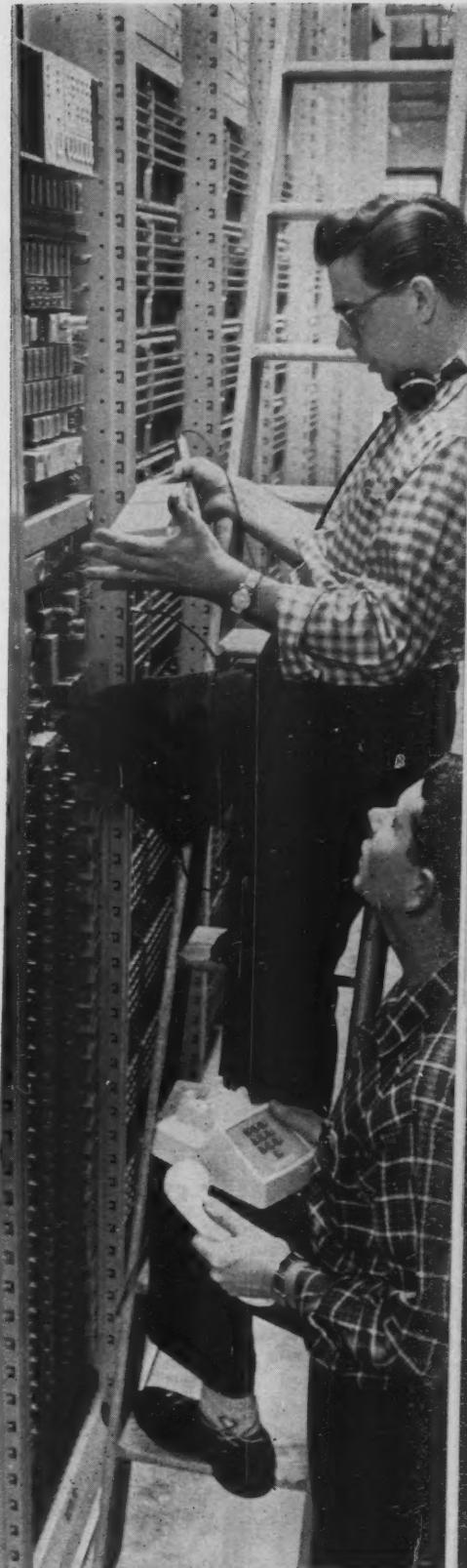
Given Western's preferred position in the Bell System, such an action is unlikely. But the threat provides a yardstick against which Western must measure its performance in turning out products that span the entire range of communications equipment.

## I. Time of change

Western Electric is big, and growing. In the past 10 years, its annual sales, like its manufacturing space, have doubled; book value of plant and equipment is around \$800-million, and the plant is well prepared to cope with the Bell System's fairly predictable demands.

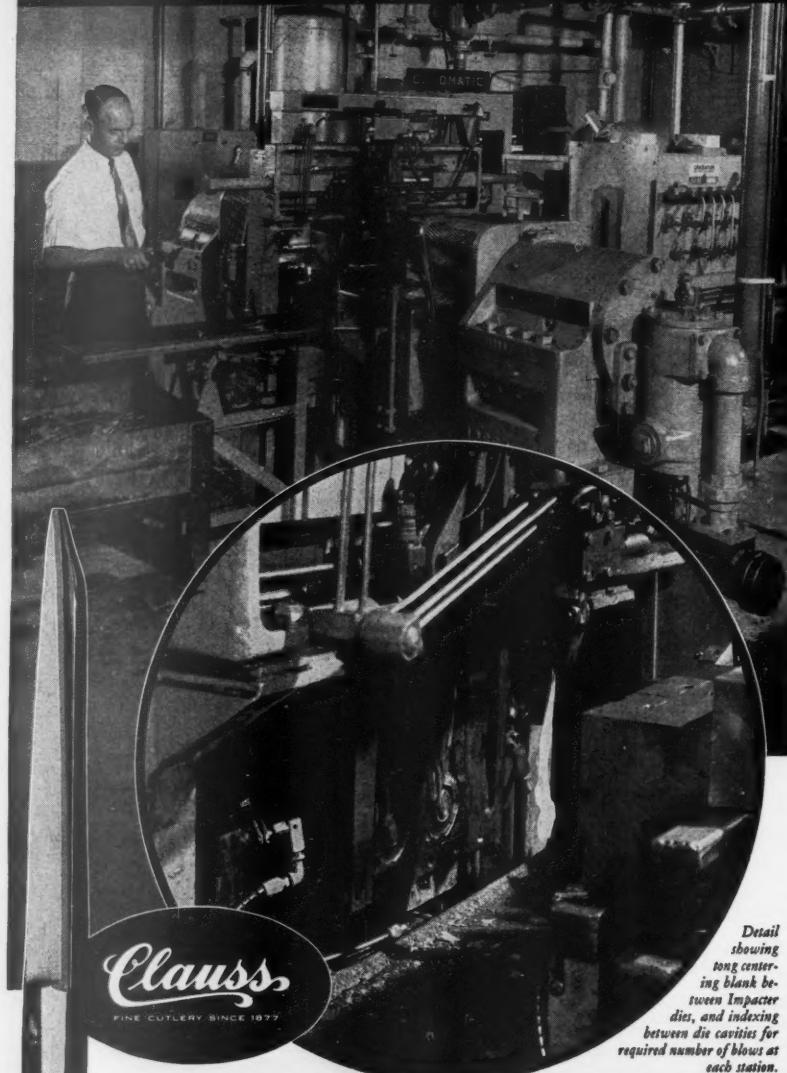
In the same 10 years, according to Romnes, the company added 50,000 employees and increased wage rates by 60%, plus liberalized fringe benefits. It experienced the same rise in costs of materials as other manufacturers did. Yet, Romnes points out, Western Electric managed to cut the cost of equipment to phone companies by an average of 6%.

However, size can be a handicap if it makes a company ponderous in adjusting to fast-changing technology, such as the present swing from electromechanical to electronic means of communication. Romnes' delicate management job must be to keep Western Electric in the van of electronics development,



Installers add accessories to equipment for pushbutton dialing in Ohio central office for test of consumer reactions.

"The Model 'C' Impacter achieves new peaks of production speed and efficiency for Clauss"



## Scissor forgings produced automatically on the Impacter ..faster, better, more uniform

Clauss Cutlery Company, of Fremont, Ohio, famous manufacturer of scissors, shears and snips, is achieving remarkable results with the Cecomatic Forging Process, incorporating the Model "C" Impacter.

Better quality forgings are produced faster, with reduced scrap, and less stock required.

CHAMBERSBURG ENGINEERING COMPANY • CHAMBERSBURG, PA.

# CHAMBERSBURG

THE FRANKLIN INSTITUTE'S 1961 LONGSTRETH MEDAL "FOR INVENTIONS OF HIGH ORDER" WAS AWARDED THE DESIGNERS OF THE IMPACTER

Write for details and a copy of Bulletin 110-L-1, "Cecomatic Process for the Jobbing Type Production of Drop Forgings."

Dies last longer, scaling is reduced and parts dimensions vary less, greatly reducing mismatch of mating parts, according to R. W. Van Hook, Vice President, Clauss Cutlery Co.



Traveling-wave tube made at Allentown Works can help carry 11,000 telephone conversations at one time.

without sacrificing any of the reliability and compatibility of equipment that the Bell System requires.

**Beaten to the draw.** Only a few companies have ever made electro-mechanical telephone systems, and none in the volume that Western does. But in the swing to electronic devices, smaller companies can and do take quicker advantage of inventions, not infrequently beating Western at its own game. One such case was successful production of silicon transistors by Texas Instruments, Inc., before Western could do it—even though TI was operating under Bell Labs licenses.

Western also may have been slow in developing microwave radio equipment, though today it is the largest producer.

**Transition time.** To meet the challenge of electronics, as opposed to the electromechanical technology on which it built its business, Western is changing at a pace that is painfully fast for a company of its size and traditions. Yet the cause of the change—development of solid-state electronics, which produced the transistor—came directly from Bell Labs. In effect, Western has made its own major products obsolete with its own research.

In 1959, only about 10% of the dollar value of Western's products was based on the so-called new-art electronics; this year it's up to 20%, and by 1964 the company planners estimate it will be more than 40%—about \$1-billion worth.

The company is adapting to this transition by integrating more closely with Bell Labs, by setting up its own lab, one of the most advanced

# Talk about money

(A little conversation about a lot of  
new money for New England Life policyholders)

Thousands of New England Life policyholders will be getting a really big dividend increase in 1962.

#### *What policies are most affected?*

The great majority will share in this largest increase in the company's history. Those policies with substantial cash values will benefit the most, thus enhancing the value of a New England Life policy as a savings medium.

#### *Why the big increase?*

New England Life has had a sizable increase in its investment return. You see, the reserves in policies are invested. And the more there is to invest, the more a policyholder stands to gain in dividends.

#### *Just how does this work out?*

Policyholders' dividends vary tremendously, of course, by age and type of policy. But let's see what will happen for each of three men who bought \$10,000 policies at the age of 40. The man who has been saving with a 20-Year Endowment contract taken out in 1944 received a 1961 dividend of \$108.60; he will receive \$131.20 in 1962. The man who bought an Ordinary Life policy in 1950 received \$98.40 in 1961; he will be paid \$111.90 in 1962. Dividend changes are generally small on recently purchased policies that have not yet built up much of a reserve: for example, the man who bought Ordinary Life in 1959 received \$22.90 in 1961, and will receive \$26.60 in 1962.

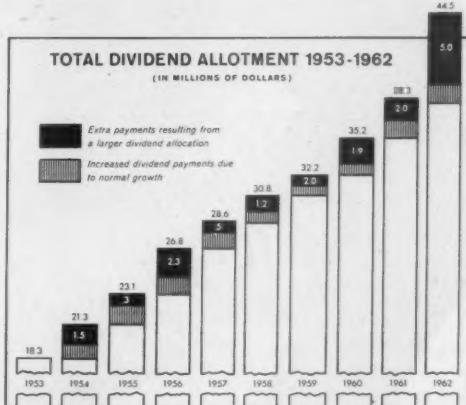
#### *Looks fine for 1962, but how about other years?*

Obviously, the adoption of this scale reflects our confidence in the future. New England Life is continuing to seek out opportunities to invest or reinvest policyholders' funds at more attractive rates.

Take a look at the chart for the past ten years and you'll see that there has been a dividend increase every year.

*It's clear that you get more and more value out of cash value life insurance with New England Life.*

That's the idea.



The interest rate on dividend accumulations has also been increased, to 3.8%. Dividends on paid-up additions are correspondingly increased. Incomes from policy proceeds have, in many cases, been raised.

*Talk about money* with a New England Life agent. Talk about the liberal provisions in the policy, too. You'll find convincing reasons to use New England Life insurance for both savings and protection.

*To help you plan now for the years ahead*

**NEW ENGLAND LIFE**

New England Mutual Life Insurance Company: Founder of Mutual Life Insurance in America in 1835. All forms of Individual and Group Life Insurance. Annuities and Pensions, Group Health Coverages.

# A.O.



*It's a special formula* — destined to be bonded to steel — where it will be able to bend and flex just as the metal does, without cracking or chipping. ¶ Actually, this is just one of more than 3000 glass formulae developed by A. O. Smith scientists during our many years of pioneering and perfecting the art of protecting steel with glass. Some other types of A. O. Smith glass provide unique resistance to acid or alkali or thermal shock or all three. ¶ With all of these glass "recipes," it is not surprising that A. O. Smith has cooked up

## why this glass will bend without breaking

so many ways to put glass-protected steel to work: glass-lined pipe and vessels to handle corrosive materials, glass-protected smokestacks to far outlast conventional steel or brick, clean, rust-free *Permaglas* glass-lined water heaters, huge glass-protected *Harvestores* for more efficient farming. ¶ Future possibilities are as limitless as imagination — yours and ours. To start us thinking about your problem, or for further information on any of our glass-coated products, write or call A. O. Smith Corporation, Department 0182, Milwaukee, Wisconsin.



in all of industry, to do complementary work on production methods, and by breaking its production facilities into smaller units, more responsive to change.

The change will not affect Western alone. It is one of the most fully integrated large companies in the U. S., yet it buys many products, components, and materials from outside suppliers. Last year, for example, it bought \$803-million worth of items for manufacturing operations or for resale to telephone companies as supplies.

Presumably, Western will go on indefinitely buying paper for larger telephone directories, ballpoint pens, ash trays, and plumbing fixtures. But its needs for steel, plastics, and other metals will shift.

**Ripe for change.** In terms of today's science and technology, much of the equipment the Bell System uses is as obsolete as a well-maintained Model A Ford. Indeed, 53% of the 11,000 central offices that interconnect the system's 62-million telephones use step-by-step switching invented by Almon B. Strowger in 1889. Western still makes a version of it in the sprawling Hawthorne works in Chicago to designs that haven't changed significantly since 1927. Western has learned, over the years, how to make the Strowger switching system so cheap and reliable that some company executives predict that the Hawthorne Works will still be grinding it out 20 years from now. It is a very profitable product.

Yet in another part of Hawthorne's 4.6-million sq. ft of manufacturing space, a group of engineers huddles over some "new art" equipment called EPBX, Western's shorthand for "electronic private business exchange." EPBX will do a switching job not unlike the one that the step-by-step switch does—it will automatically interconnect telephone lines. But EPBX is two technological generations beyond step-by-step.

It will do a quicker and better job, will take only one-tenth the space, add less noise to the signal, and should require much less maintenance. On command, it will automatically perform a half-dozen chores that would ordinarily be the job of a telephone operator, such as referring calls to other extensions, hooking up a conference call, and allowing only certain extensions to make or receive calls outside the premises.

**No resemblance.** Although they serve roughly the same purpose, and are built under the same roof, the step-by-step switching bay and the EPBX bear much less resemblance

to each other than the first automobile would to a new one.

The two switching systems don't have a single part in common. The step-by-step system is a nightmarish agglomeration of mechanical switches, relays and cables, while in the EPBX the transistor-studded printed circuit boards are stacked neatly as in an electronic computer.

## II. Getting ready

During World War II, Western Electric looked ahead and began preparing to take better advantage of the new technology of the electronic age, both in terms of changing products and changing methods of manufacture and management.

The most obvious difference in Western now, compared with pre-war, is in the size of its plants.

From the time it built the Hawthorne Works in 1905 until the late 1930s, Western crammed as much as it could under a single roof. The Hawthorne plant at one time employed more than 33,000 workers (it's now down to about 16,000). The giant works in Kearny, N. J., with nearly 3-million sq. ft. of manufacturing area, nearly matched Hawthorne in size. Before World War II, these two plants, plus another huge unit in Baltimore, turned out nearly all Western's products.

Six major plant additions, all built since 1950, average about 1.5-million sq. ft. each and have 5,000 to 7,000 employees. Each of the big new plants is geared to turn out more than \$100-million worth of telephone equipment per year.

The fractionalization of manufacturing has enabled Western to sort out its highly differing operations and put them under independent management teams oriented to the type of production methods that the particular products demand.

**Mass production.** For example, the Indianapolis Works, where all telephone sets for the Bell System are made, is strictly a mass-production operation. The works turn out 7-million to 8-million sets a year—and can boost that figure to 10-million without straining.

The telephone set manufacturing operation is one in which costs of parts are examined in mills, one where striking a penny from the cost of a telephone handset can justify a capital expenditure of several hundred thousand dollars.

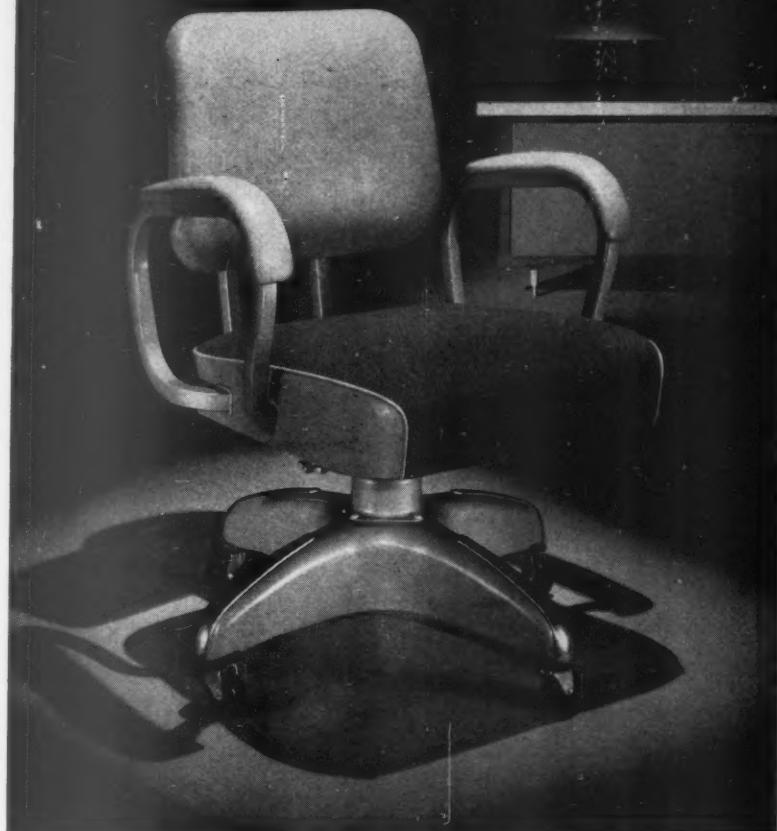
There is probably no other product made in similar volume and of similar complexity that can be scheduled so far in advance. Sales are almost directly proportional to housing starts and the condition of

Through research  ... a better way

**A.O. Smith**  
CORPORATION

A. O. Smith International S. A.  
Milwaukee 1, Wisconsin, U. S. A.

Be seated for comfort  
and savings, too!



**COSCO** "Office fashioned" chairs.

• Compare this big, comfortable executive posture chair with others costing much more. Cosco deluxe features include dual-contour molded foam rubber seat; foam-cushioned backrest, upholstered front and back; foam-cushioned armrests; quiet, long-wearing nylon bearings . . . and six comfort adjustments!

A free demonstration in your office will prove that this solid Cosco chair is a solid value for you. Call your Cosco dealer now!

Find your COSCO Office Furniture dealer in yellow pages of phone book, or attach coupon to your letterhead.

**HAMILTON COSCO, INC., Dept. BW-111, Columbus, Indiana**

Write us for complete information on COSCO office furniture and new full-color catalog, or phone your nearby COSCO dealer listed in yellow pages.

Firm \_\_\_\_\_  
By \_\_\_\_\_  
Address \_\_\_\_\_  
(Please Print)

Also available in Canada, Alaska and Hawaii through authorized COSCO dealers.

\*Models 25-S and 27-LA are priced with all-Naugahyde upholstery. Zone 2: Texas and 11 western states.

Model 28-STA  
as illustrated with  
combination upholstery  
**\$ 72 95**  
(\$75.95 in Zone 2)

Model 28-STA with all-Naugahyde  
upholstery, \$67.95 (\$71.95 in zone 2)

Model 25-S  
Secretarial Chair  
**\$42.95\***  
(\$46.95 in Zone 2)

Model 27-LA  
Conference  
Arm Chair  
**\$39.95\***  
(\$43.95 in Zone 2)



the general business cycle. The biggest hazard is a serious recession, when phones are disconnected and returned to inventory. But that doesn't happen often.

With such volume and market security, Western has been able to shave the cost of a telephone set to rock bottom. Bell System phone companies pay about \$10.40 for a standard black telephone, slightly more for the new Princess model and pushbutton sets for business use. In comparison, independent telephone companies, which by law cannot purchase telephones from Western, pay nearly three times as much for a standard telephone set.

The price difference is almost entirely due to volume production. The Indianapolis Works, if pushed, could turn out in one year nearly as many telephones as now exist in all the 10,000 independent telephone companies put together. The plant's telephone-a-second production rate could fill their annual needs in a few weeks.

**Labor saving.** By mechanizing its production lines judiciously, and even more by constantly reviewing materials and design, Western has reduced the direct labor that goes into a telephone to about 48 minutes. That's a 20% reduction since 1955. The figure takes on more meaning when you know that the 48 minutes of labor time includes plastics molding, metal forming, coil winding, electrical network fabrication, and the manufacture of the microphone and earphone. There is even a machine that grinds up special coal used in the core of the carbon microphones.

### III. The main product

The telephone set is, of course, a fundamental product of Western. But telephones—including pay phones, emergency phones for police and fire departments, dozens of varieties of business telephones—account for only slightly more than \$100-million of Western's \$1.85-billion annual sales to the Bell System.

Most of the balance is accounted for by the more complex equipment to interconnect telephones: switching equipment, generally located in the central office and exchange; and transmission equipment, which carries, mixes, amplifies, adjusts, sorts, and converts the tiny electrical signals of the system.

Transmission equipment led the electronic invasion of Western Electric decades ago. Some of the earliest uses of the vacuum tube were in amplifiers that telephone men call



## Your employees will care if they're made aware



Group Division

**AETNA LIFE INSURANCE COMPANY**

Hartford 15, Connecticut

*Affiliates:*

Aetna Casualty and Surety Company  
Standard Fire Insurance Company  
The Excelsior Life, Canada

When employees are aware of the full extent of their group insurance benefits, they realize you're providing a payroll extra. They care more about their jobs. And you benefit from increased incentive, loyalty . . . and profits.

Aetna Life's new Employee Communication Department helps you keep workers *continually* aware of the additional income they're getting through group insurance. It builds your reputation as a good employer and attracts the kind of people you want. It informs them of their benefits . . . and the obligation to *use*, but *not abuse* these benefits.

ANOTHER REASON WHY more businesses are group-insured with the Aetna Life than with any other company.

Aetna Life Insurance Company  
Group Division  
Hartford 15, Connecticut  
Gentlemen:  
Please send me further information about your Employee Communication Department.

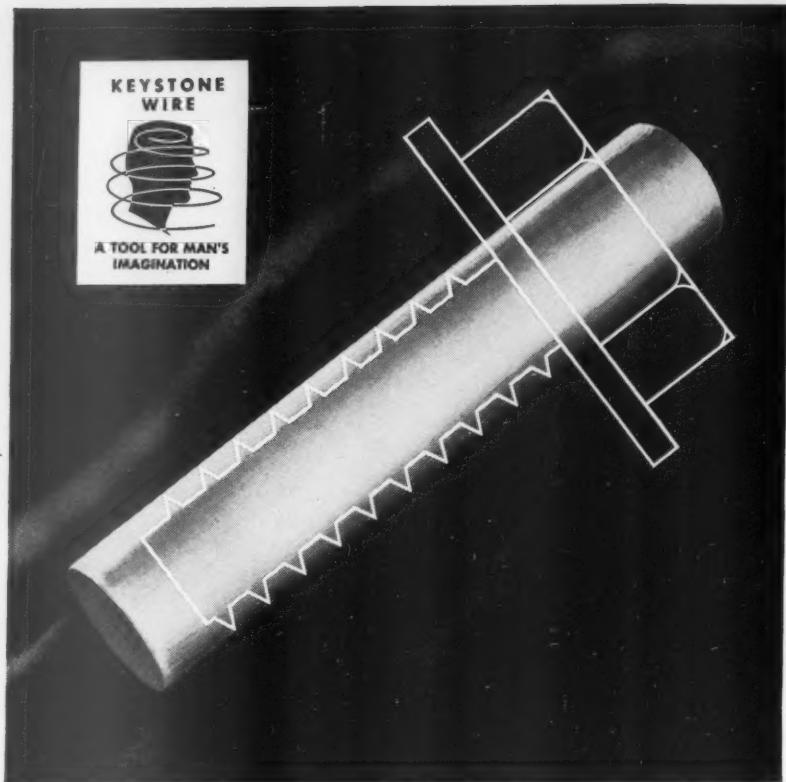
Name \_\_\_\_\_

Firm Name \_\_\_\_\_

Street \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_

ECD-2 BW



## when you design... keep wire in mind

Take a length of wire. Put design imagination to work. That wire can be cold formed into limitless forms and objects.

Today, design engineers have found it possible to produce billions of steel parts with amazing economy. The reason—Keystone Special Process Wire has characteristics of extreme *flowability* that put almost no limit to the shapes which can be produced.

Take one example—this hex head, sheet metal screw. Starting with a wire blank, this part was cold headed in two blows with a head extruded 300% larger than the original wire diameter. This is but one example of how men with imagination design and produce such intricate parts at high production rates and with great economy.

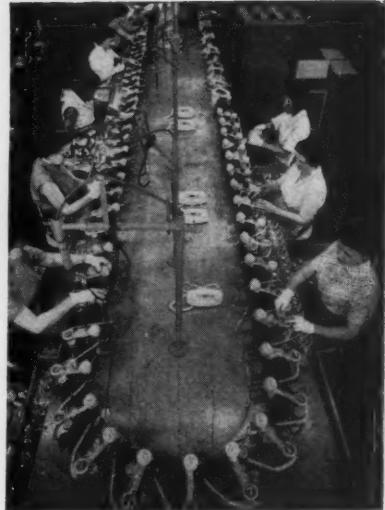
When you design... keep Keystone Wire in mind. Your Keystone Wire man will gladly help you design for profit.



Keystone Steel & Wire Company, Peoria, Illinois

**KEYSTONE**

*Cold heading and forming wire for industrial uses*



Assembly lines like this produce more than 7-million handsets each year.

repeaters—for boosting the strength of signals on long-distance phone lines. Later, carrier equipment, which can transmit a dozen or more voice signals on a single pair of wires, brought electronics into another major product line.

After World War II, the Bell System turned to coaxial cable and microwave radio links to help carry the long-distance load—particularly the increased burden of network television, which requires a system capable of carrying 600 simultaneous telephone channels just for one TV program.

Once it was established to the Bell System's satisfaction that microwave radio relay was compatible and reliable, it crisscrossed the country with the broader and less expensive electronic highways.

**Plant built to order.** To produce microwave and the more complex carrier equipment that the system required to carry a heavier long-distance and interoffice load, Western built the Merrimack Valley Works in South Andover, Mass., in 1956.

Though Merrimack Valley was originally planned to fit Western's new concept of optimum plant size—4,000 to 5,000 employees—it has already grown to 8,700.

Merrimack is a good example of how Western is trying to solve one of the toughest problems that electronics has brought it: faster technological change. There is no longer time for Bell Laboratories to design a new system, turn it over to Western to build a prototype for field testing, then re-engineer it for production. Both the interval and the engineering costs would be too

costly, and the system might be obsolete before it was put in service.

To speed this operation, Western has established the largest branch laboratory of Bell Labs at the Merrimack works. Originally, a staff of 50 came from the labs to Merrimack's pilot plant in 1955. It grew to 300, plus more than 150 technicians and clerks on loan from Western.

**Closer teamwork.** Having Bell Laboratories personnel at the manufacturing location permits simultaneous design work and manufacturing engineering. A recent project—development of the TL microwave system—shows how effective this can be.

The TL is a short-haul system intended to carry 48 to 180 voice channels between 10 and 200 mi. The system had to be better than other manufacturers' microwave systems on the market, and had to be compatible with all types of carrier systems in use in the Bell System. The Bell System decided in 1959 that short-haul microwave should be made available to operating companies by Western. Development started in January, 1960, and the first system was delivered last July. That's fast work.

The equipment is practically all new, transistorized, and the first that can use batteries instead of standby motor generators for auxiliary power. But Western did more than deliver one system in 18 months. It toolled up to produce custom installations so that it can deliver them within six to eight weeks of receipt of an order.

#### IV. Reliance on computers

Because nearly all Merrimack's products are turned out to specific order, the production scheduling job is particularly difficult there. To handle it, Western installed a huge IBM 7090 computer, with three smaller 1401 computers to work with it.

In the near future, Merrimack's entire production scheduling operation will be on a master computer program. It can already do a lot of the job of keeping track of the 80,000 items through 13 stages of manufacture from raw material to finished product.

The method has improved delivery from 75% on-time to better than 99%. Since Merrimack ships about 3,000 orders per week at an average order value of \$1,000, such on-time performance yields great savings. But it takes an incredible amount of calculating. The computer is up to it—it can do a biweekly



## 90 million customers are neighbors when your plant is in Baltimore

ONE-HALF THE U.S. buying population is within 48 hours *bulk-delivery* time when you base your new plant in the Baltimore area. America's second port in foreign tonnage, Baltimore also ships via 3 trunkline railroads, 175 interstate truck lines, 12 airlines. Raw materials get *here* faster . . . your finished products get *there* faster . . . to or from the Northeast, South, Midwest. The whole world, for that matter. And Baltimore has much *more* to offer . . .

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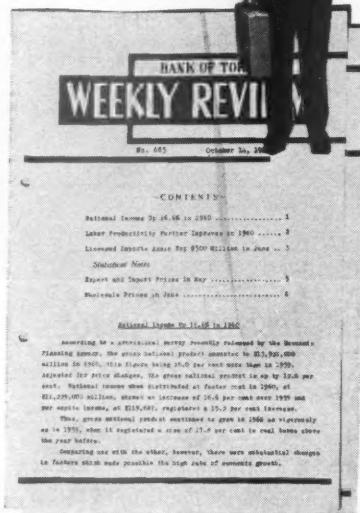
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payroll for the plant's hourly workers in  $8\frac{1}{2}$  min. About 85% of the computer's time is assigned to production scheduling and engineering.

**Practical uses.** Western management has done some pioneering in teleprocessing in such applications as ordering parts from distribution centers and in transmitting orders in exploded form for central office equipment from a computer at Hawthorne to the Columbus Works.

Western operates the only computer-controlled production lines in industry that turn out separate parts, in contrast to process products in a stream flow. At its North Carolina Works in Winston-Salem, two computer-controlled lines turn out high-reliability, deposited carbon resistors [BW Oct. 14 '61, p189].

**More to come.** Western's biggest computer project is still in development. At its new Kansas City Works, computers will take over almost complete management of production and quality control. They won't run the machines, but they will forecast production, handle incoming orders, schedule them for production, and take information right from the machines on the production line on a so-called "real time" basis.

Information from the production tools will be collected by production-floor input devices that are connected to satellite computers, IBM 1401s, and thus fed to a big 7090 computer.

The Kansas City computer project is partly experimental. "We want to find out what happens if we go all the way," says one Western executive. "And we feel that it is easier to do it in a new plant where you don't have the problem of changing the way people do things."

**New lab.** The computer programming job for the Kansas City project is much too large to expect plant personnel to tackle. It's being done at the new Western Electric Research Center near Princeton, N. J., established only two years ago.

Establishing another research arm when Bell Laboratories is available may look like gilding the lily, but the Princeton center has a wholly different purpose. Bell Labs concentrates on basic research and design and development of devices. It does nothing, formally, to develop ways of making things. The new laboratory is devoted to a rather new research approach in two broad areas: how a company should be run, and how products should be made.

**Three assignments.** Specifically, its work is divided into three areas:

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tories of the individual plants. Typical projects include an investigation of micromanipulation techniques with a view toward developing a mechanized method of making connections to tiny transistors and developing new ways to wind coils.

**Systems research**, primarily a study of the applications of data-processing to Western's production problems. The objective is to reduce intervals between order and delivery, reduce inventories by better forecasting and scheduling, and reduce expenses through design automation and improved engineering.

**Process research**, to find better ways of manufacturing various types of products. At present, all Western projects in the process research section are confidential, but the idea behind the lab's work is that the process by which a product is made often determines its design. Therefore, basic process knowhow can contribute to device development.

**Internal rivalry.** With all the assets that Western has as a manufacturer, the one thing missing is the yardstick of direct sales competition. However, it has developed a reasonable facsimile internally.

Managers of the new plants generally are old hands from Kearny, Hawthorne, and Baltimore. They are eager to surpass the records of the old plants. Western also dual-sources many of its products. If one plant is then producing at less cost than another, there is plain proof that the laggard could do better.

New equipment and devices, which must be better or less expensive if they are to replace the old, are often developed in the same plant that makes the "established art" devices. In the Columbus Works, for example, a new electronic central office is being prepared for manufacture by a group of engineers side by side with the engineers who are developing ways to cut the cost of the No. 5 crossbar switching system that the electronic office will replace.

It's a friendly race, by and large, but engineers have succeeded in cutting the cost of the No. 5 crossbar to such an extent that the electronic system is having a very hard time surpassing it. Some engineers think it will never be cheaper.

"Besides," says one engineer, "if they keep hanging electronic warts on the No. 5 crossbar, it can almost do everything that the ECO can do."

However, designs for the electronic office are almost final, and at least five systems are scheduled for production. **End**



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# More financing by captives

**Marketers set up their own sales finance subsidiaries, and tend to give them more freedom to do business**

**There's money to be made in the financing itself, these companies find, besides giving impetus to sales**

**The rise of captive finance companies stings independents to hotter competition, and antitrusts to wrath**

**Ingersoll-Rand Financial Corp.**, set up last spring as a subsidiary of Ingersoll-Rand Co., now has launched a campaign to advertise its services: the supplying of credit both to Ingersoll-Rand dealers and customers and to the commercial and industrial field at large. IRFC is one of the 100 to 150 so-called captive sales finance subsidiaries that are now in business, most of them relatively new.

Some captive finance subsidiaries such as General Motors Acceptance Corp., the giant in the field, have been in operation for years. But there has been a sharp trend just recently toward forming new ones. In the past year or so, at least 10 major companies, including five retailers, have set up such subsidiaries, and several dozen have been formed by small to medium-sized companies in various industries from food freezer plans to shell homes.

Ingersoll-Rand, which makes machinery and equipment, set up IRFC after two of its direct competitors had established captive companies, chiefly to finance (or "floor-plan") dealers' inventories. Typically of the new trend, however, Ingersoll-Rand not only expects IRFC to build the parent company's sales but also to make a handsome profit on the financing business.

**Rich return.** Earnings of sales finance companies confirm that handsome profits can be made. GMAC—an unusual case, to be sure—averaged a net return of about 20% on investment during the past five years. Most captive companies can show a rate of return above 10%, because of the tremendous leverage in their balance sheets.

"Most sales finance companies," a finance man explains, "set a profit target of about 2%, after taxes, on money employed, although they may

not always reach it. Captives, because they are willing to trim rates to build up sales volume for the parent, normally set their sights lower. But, because of their leverage, they can get a much higher return on capital."

**Leverage does it.** According to a Federal Reserve Board study, sales finance companies as a group derived only 14% of their total funds from capital and surplus; the rest came from outside borrowings. This low ratio of capital to debt provides the leverage that increases the rate of return on capital, and this leverage is stepped up further in the case of the captive companies.

The typical independent finance company has about a 3-to-1 ratio of borrowed funds to equity; the captive company, backed by its parent's prestige and volume of banking business, can often operate at a ratio of 4-to-1 or better. Banks look with favor on their liquidity of assets and relatively stable earnings. But it's obvious that the parent's blue-chip standing can also play an important part in persuading banks to extend more credit to a subsidiary.

Thus, captive finance subsidiaries enjoy leverage that is attainable by few other finance companies, let alone industrial companies.

**Profit potential.** This can open the door to a higher return on the dollar from financing than from the parent company's major business. In Ingersoll-Rand's case, financing seemed necessary for its dealers, whose own resources didn't permit them to carry slow-moving inventories, and for their customers, who were being given terms of more than five years to pay. Banks and independent finance companies didn't seem able to fill the need.

But it was the profit potential of

the finance subsidiary that clinched Ingersoll-Rand's decision to go ahead into commercial and industrial financing. And the same factor is bringing others into the field. General Electric Credit Corp., for example, has moved aggressively into commercial and industrial financing. Automatic Canteen Co. of America set up a finance subsidiary by acquiring Hubshman Factors Corp. and Jones & Co., both to finance its own sales and to gain entree to the financing business.

This doesn't mean that all captives are profitable. Appliance Buyers Credit Corp., owned 80% by Whirlpool Corp. and 20% by Carrier Corp., for example, lost \$524,000 in the first nine months this year. Nor does it mean that profits are translated directly into dividends for the parent. Most captives, in fact, plow earnings back into the company, building up equity while freeing the parent's capital.

What's more, they are in no hurry to repay any loan from the parent.

**Degrees of captivity.** At least three major categories are definable among captive finance companies:

- The pure captive, concerned solely with financing dealers, and sometimes the retail customers, of the parent company. GMAC and Ford Motor Credit Co. are well-known examples. Such subsidiaries have generally started in the wholesale side of the business, then moved to the more profitable retail.

- The finance subsidiary that serves to buy receivables only from its parent. It is primarily a money-raising device for the parent.

- The limited captive, as in the Ingersoll-Rand and Automatic Canteen ventures, helping to promote sales but free to engage in financing in the general credit market.

There are also hybrids among these groups. GE's subsidiary, for example, engages in general commercial and industrial financing, but it makes a point of dealing only with borrowers who have some connection, no matter how tenuous, with GE's business.

**Source of funds.** Companies may



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### **Companies form finance subsidiaries as a source of raising funds . . .**

#### **Story on page 71**

form finance subsidiaries, such as those set up by department stores (Macy Credit Corp. is the latest entry), to gain flexibility in raising money.

According to Treas. Donald MacArthur of Sears, Roebuck & Co., the mail order house founded Sears Roebuck Acceptance Corp. in 1956 because of the leverage that was possible—"4 of debt for each \$1 of capital"—and because it gave Sears an additional avenue of financing.

Sears had been selling its receivables to a group of banks at whatever the prevailing rate might be. Now Sears can sell them either to the banks or to its finance subsidiary, depending on where it can get the best terms.

SRAC buys paper from its parent at a discount sufficient to make earnings at least 1½ times the interest charge—a requirement, says MacArthur, that must be met by captive finance companies that want to borrow privately from New York life insurance companies. This discount rate varies but currently runs about 4½%.

**Credit for dealers.** A prime reason for operating a pure captive finance company is to supply a steady line of credit to dealers. Says James T. Brown, president of B-W Acceptance Corp., Borg-Warner Corp.'s subsidiary: "It's not by happenstance that most manufacturers got into this field. They couldn't get adequate financing from independents on any kind of composite plan they could use nationally."

Another executive of a captive finance subsidiary agrees, explaining: "A lot of independents turn the tap on and off, depending on where they want to put their money. They switch from autos to whatever else is hot at the moment, particularly when money is tight. Moreover, when an independent undertakes an agreement with a manufacturer, there's usually some recourse to the manufacturer."

Availability of credit is also a reason why limited captive companies are finding rather easy entree into industrial financing. A bank may not regard a given loan as worth the risk, yet it is willing to lend money to a finance company for taking that very same risk. This is partly because of the diversification in a fi-

# How much of your working capital is really doing its work?



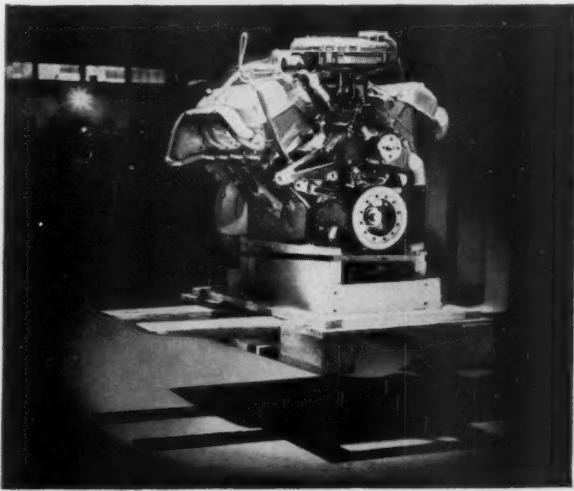
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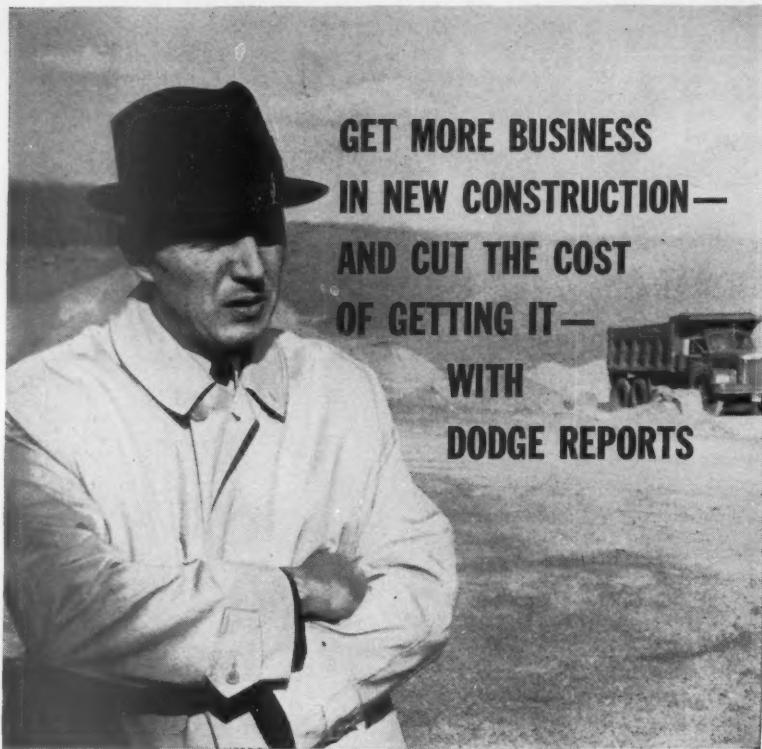


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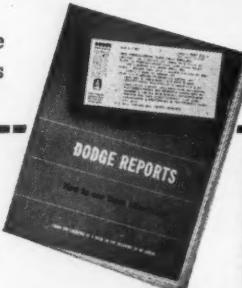


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nance company's portfolio and partly because the parent company, if only in a moral sense (there's no recourse to the parent), stands behind the borrowing.

**Not all roses.** The growth of the captives has not escaped criticism, both of their organization and of their methods.

A special target has been GMAC, formed in 1919 by GM and repeatedly assailed by Congress and the Justice Dept. So far it has withstood all attempts to break it away from its parent, though last summer a House antitrust subcommittee held hearings on a bill that would require the divestiture of both GMAC and Ford Motor Credit Corp.

Auto manufacturers who lack a credit arm argue particularly that GM gains an edge by GMAC's role in financing dealers and customers, while independent finance companies claim that GMAC's low rates give it a competitive advantage. GMAC denies the charges. Ford says it revived its credit subsidiary to assure its dealers of sufficient credit for inventory to meet GM competition.

Some critics see danger, too, in the willingness of some captive companies to extend more credit to dealers and retail customers than an independent would dare. They say captive companies, working with borrowed funds, may go too far in risk-taking. Loss ratios generally run higher than with the independents—and this could prove painful in a business downturn.

One hazard the captive companies face, of course, is that the parent's sales department may try to take control of credit policy, pushing the credit subsidiary to make its terms too easy for the sake of added sales. If this hurts the subsidiary's profits, the lenders may balk. "To succeed," says one executive, "the subsidiary must have strong profit motivation, not only a desire to push sales."

**More competition.** Rivalry between captives and independent finance companies is heating up all the time. For one thing, rate-cutting in commercial and industrial financing is coming into play. Captives can also be expected to compete more in the sale of commercial paper, a favorite short-term financing route for sales finance companies, and in the sale of debt paper. In the past year or so, some big debt issues have been floated by captive companies. So far this competition for investment funds hasn't hurt the independents, but if too many issues of this type should come to market in a bunch, underwriters might have problems of pricing and distribution. **End**

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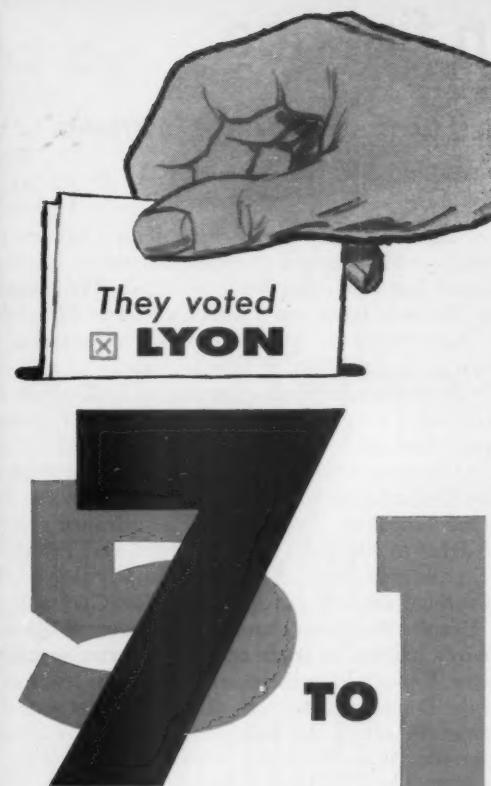
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# In finance

## West Germany's balance of payments is running a \$1 1/4-billion deficit

The massive surplus in West Germany's balance of payments—which caused so much distress in international finance last year—has been reversed. The Germans so far this year have run a deficit of some \$1 1/4-billion.

The switch from surplus to deficit has resulted chiefly from a combination of two factors:

- An outflow of short-term capital as German interest rates were lowered (partly as a measure of German cooperation with other countries, including the U. S.).
- Governmental payments totaling more than 5.8-billion D-marks, including major transfers to the International Monetary Fund, as well as advance repayments of debts to the U. S., Great Britain, and France.

In addition, the Berlin crisis abruptly slowed the rate of foreign security purchases in West Germany.

Despite the sharp change in the over-all figures, Germany's balance of trade continues to run strongly in its favor. Exports have increased despite the 5% revaluation of the D-mark last March—which in effect raised export prices 5% across the board. In 1961's third quarter, for example, West Germany's trade surplus came to approximately 1.7-billion D-marks, almost 50% above the year-before surplus.

The trade surplus indicates that once the non-recurring transfers from the German government are out of the way, the large-scale influx of capital might resume. But some observers—in Germany and out—think the big bulge in exports represents a working off of past orders rather than any new increase. And they point out that rising wages and prices in Germany may make it difficult to maintain a favorable balance.

## More data to aid in fixing policies sought by new member of Fed

In formulating its monetary policy, the Federal Reserve has plenty of statistical information to work from. Even so, George W. Mitchell, Pres. Kennedy's first appointee to the Fed's seven-man board [BW Jul.1'61, p24], now is questioning whether this mass of facts and figures is really adequate.

Addressing the American Statistical Assn. in Chicago, Mitchell was not only critical of the Fed's present methods of data collection but also of some currently popular theories of monetary analysis.

Mitchell put it this way: "We need to get beyond the stage of confining analysis to leading or lagging differences in change or momentum in the aggregate money supply. Clearly, for analytical needs, we should be providing a great deal more data; such data would enable us to sector [divide up] money holdings and inflows and outflows according to major economic groups."

Mitchell's main point is that velocity—the rate at

which demand deposits are used—is one of the keys to understanding how the economy is reacting to changes in Fed policy, but that it is not enough to find out how much velocity is changing—you have to know why as well. To remedy this problem, Mitchell wants to know who owns demand and time deposits, and for what purposes they are being used.

## Life insurance giant moves to acquire fire-casualty company under court ruling

Connecticut General Life Insurance Co. last spring won a landmark court decision permitting it to acquire fire and casualty companies [BW Jun.10'61, p77]. This week the company took advantage of its new authority.

CG Chmn. Frazar B. Wilde announced that CG will bid for at least 80% control of Aetna Insurance Co. of Hartford (assets: \$314-million), whose earned premiums last year of \$158-million ranked it 16th nationally. Aetna Insurance has no connection with Aetna Life Insurance Co.

The deal calls for an exchange of stock. Next January, CG will call a special stockholders' meeting to approve both the deal and a new 2-for-1 split in CG's stock. Assuming approval, CG will then make a formal offer to Aetna's individual shareholders to swap each of their shares for 1.2 CG shares.

Aetna Insurance will maintain its identity as a separate company; there are no plans to combine any phase of operations. But despite this separation, insurance men say sharper competition will be the inevitable result of CG's offering one-stop insurance service.

## Doeskin's court-appointed 'guardians' split on whether it should be sold

Strife-torn Doeskin Products, Inc., looted by fugitive financier Lowell M. Birrell, faces yet another battle—this time between the two fiscal agents who were appointed by a U. S. court to watch over its financial affairs. At issue is whether or not Doeskin should be sold to a larger company.

One of the agents, Thomas J. Connellan, a retired banker, is pushing for a sale because of the substantial, though undetermined, liabilities that Doeskin inherited from Birrell's manipulations. The other, Frank L. Bertsch, a certified public accountant, wants to keep going because for the first nine months this year profits were \$340,000 in contrast to a \$211,000 loss for the preceding 11 months.

In any event, there's no lack of bidders for Doeskin. Union Bag-Camp Paper Corp. bid \$4.6-million for the company's assets (but not its liabilities or its assorted legal and financial problems); the ante was raised to \$4.7-million by Hudson Pulp & Paper Corp.; then Union Bag upped its offer \$200,000 to top Hudson.

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# A REVOLUTIONARY APPROACH TO PLANNED LUBRICATION AND PREVENTIVE MAINTENANCE THROUGH DATA PROCESSING

—achieving tremendous economies.

ON THE FOLLOWING PAGES, Mobil presents an important new technique in plant lubrication and preventive maintenance management developed by Pratt & Whitney Aircraft Division of United Aircraft Corporation, with Mobil help.

It is an impressive example of how Mobil

customers can benefit from the skill and scope of the largest lubrication service program in the industrial field. It is worth the careful attention of every executive who seeks maximum efficiency and lowest cost in the operation and maintenance of industrial and fleet equipment.



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*Reprints of this advertisement are available.*

SEE FOLLOWING PAGES

FOR DETAILS →

# Data Processing Control of Maintenance Costs

## RESULTS:

IN 3 SHORT YEARS—1958 TO 1961—  
PRATT & WHITNEY AIRCRAFT HAS REAPED  
THESE BENEFITS IN THE MAINTENANCE  
OF 12,000 PRODUCTION MACHINES

- 1 Increased efficiency of machine repair department by 40%.
- 2 Reduced unscheduled or emergency calls by 25%.
- 3 Increased productivity of lubrication department personnel by 35%.
- 4 Purified and re-used 150,000 gallons of lubricating oil each year.
- 5 Reduced loss of lubricant by leakage by 4,200 gallons per month.
- 6 Reduced maintenance hours per year on a battery of tracer controlled units from 1,879 to 243; reduced number of repair calls by 72%.
- 7 Reduced number of lubricants in service from 44 to 18.



### QUICK ANSWERS TO MAINTENANCE PROBLEMS

The data processing system at Pratt & Whitney Aircraft schedules 90 separate maintenance operations on 12,000 production machines in three plants. It keeps tabs on what was done, how long it took, what it cost. It spotlights lubricant waste, excessive repairs, unscheduled down time, and high maintenance cost units.

**Don Nigro** (right), Pratt & Whitney Aircraft Master Mechanic, shows Mobil Field Engineer Bill Allman how the computer system automatically schedules most efficient maintenance by printing instruction cards for each machine.



## How Pratt & Whitney Aircraft Revolutionized Its Lubrication and Preventive Maintenance with Mobil Help.

# Mobil Program of Correct Lubrication Protects 12,000 Production Machines Built by 400 Different Equipment Builders.

In 1958, Pratt & Whitney Aircraft, the world's leading designer and manufacturer of jet engines took a bold forward step in reducing and controlling maintenance costs. P&WA decided to program into its data processing control system all information necessary to provide both the scheduling and recording of all maintenance operations: what to do, when, where, and was it done, who did it, time consumed, volume of lubricant used, unscheduled calls, and other deviations from normal.

With a total of 12,000 production machines built by over 400 different equipment manufacturers located in three separate plants, this posed a gigantic problem requiring detailed knowledge of every piece of equipment. Mobil was the logical source of help for specific lubrication application data because of Mobil's established Equipment Builders Service which regularly maintains contact with 5,000 machinery builders the world over.

### How It Works

P&WA has computerized the scheduling of all routine machine service functions. Automatically scheduled on a periodic basis are 90 different routine machine service functions totaling over 18,000 operations in three plants. Examples of these service functions are: change coolant, filter coolant, change hydraulic system, periodic machine inspections, etc. Scheduling by computer has released foremen from the requirement of manually scheduling an operation which is too complex to be done in this manner. The results show not only a substantial reduction in labor and material costs, but a better job.

Daily machine maintenance activity is collected in the form of punched paper tape. From the tape is maintained a complete maintenance history record for each machine which includes down time, repair costs (labor and material) and a complete description of work done. The repair history and machine condition reports which are coded and shown on the master record are used for considerations of machine application, overhaul or re-

placement. Runoffs by machine type and department are used to point up problem areas so that the best thinking of both maintenance supervision and operating supervision can be brought to bear. In addition, reports are compiled on starting and completion dates, work backlogs in hours, employee records and departmental performance.

### How Mobil Helped

For many months Mobil's technical staff worked with P&WA production engineers to standardize and simplify machine lubrication and hydraulic system procedures. For each piece of equipment, a master card was prepared listing parts to be lubricated, lubricant used, frequency of re-application, system changes, filter changes and personnel responsibility.

The complexities of analyzing the lubricant recommendations of the 400 manufacturers were simplified by Mobil contacts with these builders. As a result, the number of lubricants was reduced from 44 to 18 with the builders' approval. This was far more complicated than the usual "survey," involving frequency, coding, inspection and preventive maintenance. Concrete recommendations were made by Mobil in these areas. With this specific information on hand, P&WA programmed these factors into the data processing control system. In setting up the system, the goals were:

- 1 *To establish an accurate control of work arrangements to facilitate scheduling, to establish completion times.*
- 2 *To reduce unscheduled down time and machine part replacement costs from lack of adequate lubricants.*
- 3 *To develop accurate follow-up information regarding correct use of predetermined lubricants, proper frequencies maintained, adequacy of filter and lubricant change periods.*
- 4 *To spotlight chronic leakers or high lubricant make-up units.*
- 5 *To spotlight high maintenance cost units.*
- 6 *To identify need for machine design improvements as determined by specific local uses.*

As a result of careful planning and intimate knowledge of all machine requirements, an automatic system of inspection, lubrication and maintenance was set up. Mobil preventive maintenance methods were adopted for all hydraulic and circulating systems. Inspections indicated the need for filtering circulating oils in place every six months. Automatic lubricators were installed where applicable to reduce the more frequent application periods and to conserve lubrication personnel time. Troublesome systems were carefully cleaned using special Mobil flushing techniques.

Clinics were conducted for maintenance, repair and other personnel. Special devices were used to permit quick connection of couplings to portable filters; high-volume pumps reduced time in changing reservoirs; improved grease-gun loading equipment was adopted. A definite leakage control program was adopted to balance lubricant cost against leakage. Steps were also taken to correct individual problems that consume excessive personnel time.

The system works. Today, three years later, the impressive benefits on the opposite page have been chalked up. The reduction in maintenance costs over this period totals several hundred thousands of dollars.

Three important conclusions can be drawn from this work:

- 1 The outstanding success of this achievement reflects the progressive Pratt & Whitney attitude that has led to distinguished accomplishment in many technical fields.
- 2 Mobil, with the largest and most experienced technical lubrication staff, is best equipped with the engineering manpower necessary to help customers do this kind of a pioneering job.
- 3 Properly programmed, data processing control offers tremendous possibilities for cost reduction in industrial lubrication and maintenance.

**IF YOU HAVE  
COMPUTER TIME AVAILABLE... AND  
A PLANT OR FLEET THAT COSTS  
TOO MUCH FOR MAINTENANCE...  
IT WILL PAY YOU TO CONSULT MOBIL.**



A 700-ft. ore boat enters Seaway through St. Lambert lock near Montreal—almost the largest that lock can accommodate

## TRANSPORTATION

# Choppy waters on the Seaway

**The St. Lawrence Seaway's traffic record for its third—and best—season indicates that it is still short of rosy predictions despite solid gains**

When the St. Lawrence Seaway opened to ocean-going traffic in April, 1959, the long years of bitter wrangling and the immense sums involved were buried under a blanket of optimism.

Supporters predicted the \$470-million Seaway would make the Great Lakes into a fourth U.S. seacoast. U.S. and Canadian tolls committees estimated that:

- Seaway traffic would reach 33-million tons by 1961, 50-million tons by 1968.

- The older, Canadian-owned Welland Canal, connecting Lakes Ontario and Erie, would handle 46-million tons by 1961 and 60-million tons by 1968.

- Toll collections would begin to

make the Seaway self-liquidating by 1964.

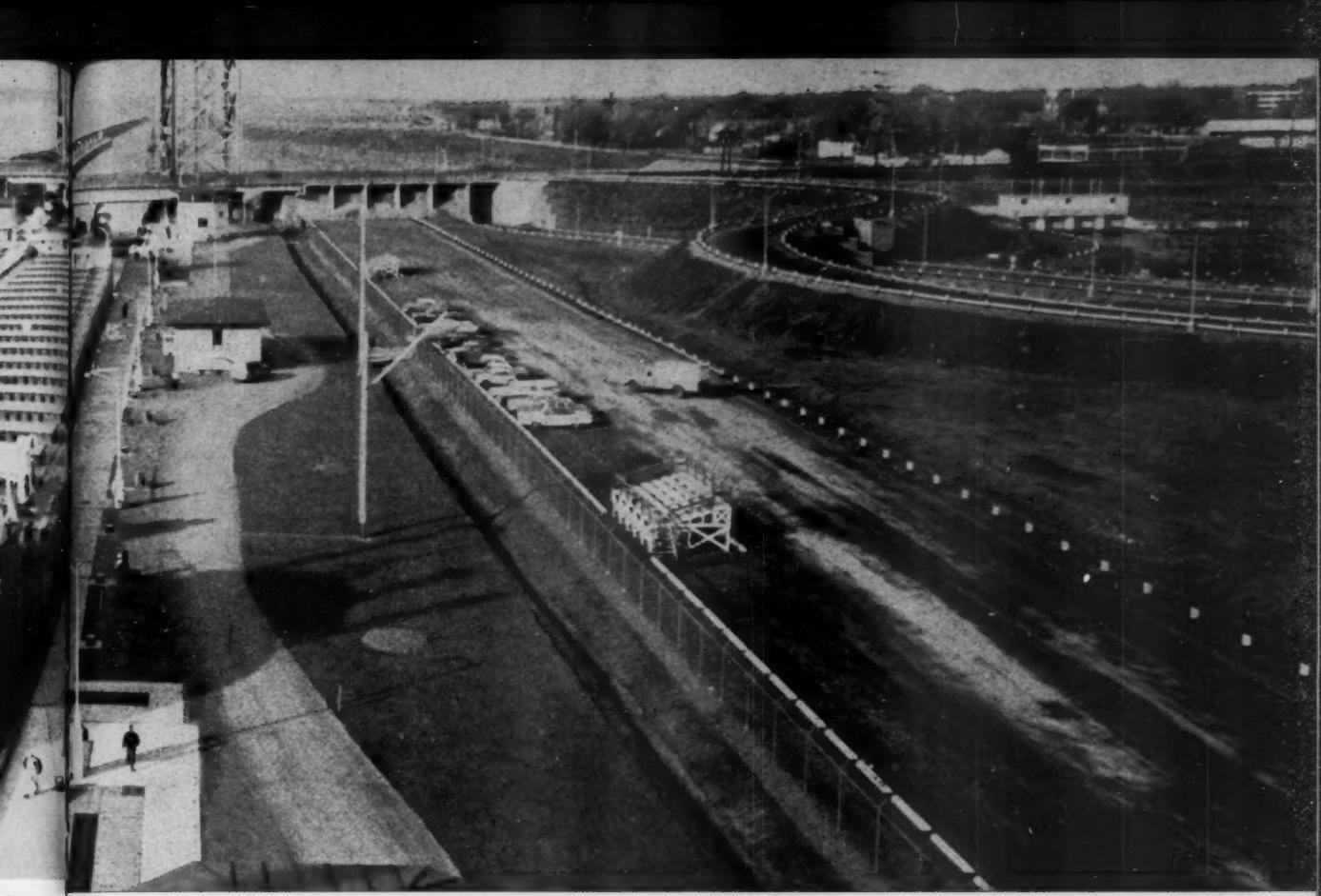
**Sights too high.** This year, as the Seaway moves toward the close of its third season, it's clear those early forecasts were just too optimistic.

Traffic in this, the Seaway's best year to date, will total only 22-million tons—not too much better than 1959's 20.6-million tons and last year's 20.3-million tons. Welland Canal traffic won't exceed 30-million tons this year, up only about 4% from 1960. Revenue will total about \$12-million—enough to pay operating expenses but still short of the \$23-million needed annually if the Seaway is to pay current interest, principal and payment on deferred interest. This year's gains—welcome

enough to U.S. and Canadian Seaway agencies—failed to narrow the gap between predictions and performance.

**Qualified success.** Actually, after three seasons, the Seaway is neither a total flop nor an unqualified success. A growing number of Seaway experts now write off most early estimates as overenthusiastic, and look more on these years as a developmental period.

Canada, which wanted the Seaway to improve transportation between the Great Lakes and Eastern transshipment ports, is pretty well satisfied with the first three seasons of operation. Canada's internal traffic is substantial—7.2-million tons in 1959, 6.5-million tons last year



—two-thirds of the 6,800 ships using the Seaway are Canadian and its ports generally are well-equipped to handle Seaway traffic.

The U.S., which saw the Seaway more as a link between midcontinent agriculture and industry and overseas ports, is less pleased. A five-man task force studied U.S. Seaway operations last spring and found the situation growing critical.

Experts from both countries now expect traffic to increase at a more conservative 5% to 10% annually until the Seaway's theoretical maximum capacity of 50-million tons is reached early in the 1970s. It will take that long, they believe, to undo the knot of problems—virulent competition, lack of deep water, spotty port development, scarcity of cargo, and half-hearted promotion that still plague the Seaway.

## I. Promotional boasts

Traffic did increase this year as time, experience, and the improved economic picture combined to solve some problems.

Increased exports of grain and scrap metal and a promising flow of new general cargo shippers to Lake ports gave U.S. overseas tonnage through the Seaway another

boost this year—up from 700,000 tons in 1958, before the Seaway, to an estimated 6-million tons in 1961. Half this total is in grain, and grain-rich Duluth-Superior stands as the new giant among Lake ports. Its overseas traffic shot from 21,388 tons in 1958 to 2,220,081 tons last year—about 95% of it grain. Scrap metal exports jumped from 10,000 tons in 1959 to 424,000 tons last year, and will be up again in 1961.

Milwaukee estimates it has gained about 100 new customers in the past two years. In Chicago, International Harvester Co. recently shipped the first of 300 combines through Calumet Harbor to France, while the local Volkswagen distributor will bring at least 9,000 cars this year directly to the city. In Cleveland, Goodyear Tire & Rubber Co. has increased rubber imports this year. French auto maker Renault this fall began importing cars for Midwest dealers through Monroe, Mich. [BW Sep. 23 '61, p182].

**Better services.** A number of factors are behind this growing influx of shippers.

About 90% of ships hauling general cargo on the Seaway now operate under uniform conference rates and shippers face less haggling over ocean rates.

Supporting services are improving. Stevedoring, while not yet up to coastal port standards, is getting better. A Chicago importer who threatened to bolt the Seaway in 1959 because of shoddy cargo handling, now finds the situation "much better."

Ships run closer to schedule, with fewer costly delays, as captains learn to negotiate the Seaway's narrow confines and tricky currents.

**New facilities.** Port cities, competing both for job-producing general cargo and big-tonnage bulk cargo, are pouring more money into promotional activities and new facilities.

Chicago port agencies have spent \$32-million and private industry is adding another \$20-million at downtown Navy Pier and outlying Calumet Harbor. Union Tank Car Co. alone will build a \$17-million bulk liquid terminal at Calumet Harbor. Toledo's Port Authority and private industry have spent \$15-million in three years. In Duluth-Superior, the Port Authority has invested \$10-million and industry \$3.5-million, mainly in new facilities to handle the port's immense grain tonnage.

Milwaukee opened a \$6-million pier last September to complete a \$13-million, five-year port expansion

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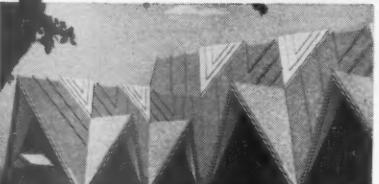
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program, while Cleveland already has invested \$7-million in two city-owned piers and will build a \$400,000, 150-ton crane in time for the 1962 season. Buffalo's Port Authority is spending \$1-million to convert an abandoned waterfront factory into a marine terminal. Private industry is building new facilities at Detroit, where voter refusal to approve bond issues has stymied municipal port development.

Toronto, most important of Canada's Lake ports, already has invested \$20-million in port development and expects to spend another \$75-million over the next quarter-century on a new outer harbor area.

**More promotion.** Lake cities—especially Toledo, Milwaukee, and Chicago—are increasingly aggressive in port promotion, as they try to win shippers away from established, more familiar transportation routes. Says W. W. Knight, Jr., chairman of the Toledo-Lucas County Port Authority: "The toughest job any of us face is breaking down shipping patterns that have prevailed for 50 years."

Seaway promotion stands to gain most, however, from the more aggressive posture taken by the St. Lawrence Seaway Development Corp., the Commerce Dept. agency that handles U.S. Seaway affairs.

SLSDC traditionally has eschewed promotional activities, partly because the Eisenhower Administration—and the older crop of agency offices—wanted it that way, and partly because of pressure from Eastern and Gulf interests that have opposed all forms of Seaway development.

Last spring's task force report, prepared by retired Adm. John Harlee, found "an unnecessarily rigid and self-imposed restraint on development of Seaway traffic." The report spurred Commerce Secy. Luther H. Hodges to call for a bigger effort on promotion.

Lending muscle to Seaway development is Joseph H. McCann, a Detroit businessman who last spring was appointed deputy administrator of SLSDC. McCann, slated to succeed retiring Martin W. Oettershagen as administrator in 1962, concedes he's not happy with the Seaway as it is now.

For the first time, SLSDC was granted a promotional allowance this year—although only \$11,000 of the \$100,000 it had requested.

## II. Wooing the shippers

If the Seaway ever is to pay its own way, U.S. Seaway officials now realize they either must boost traffic

sharply or raise tolls—now 90¢ per ton on bulk cargo and 40¢ per ton on general, plus another 2¢ per ton on bulk cargo and 5¢ per ton on general cargo for the Welland Canal—when the entire toll structure is revised in 1964. Any increase in tolls, says administrator Oettershagen, would be "ruinous."

Canada has less of a problem wooing shippers. Canadian shippers traditionally have looked on the St. Lawrence as a vital link between the Great Lakes and Eastern and overseas ports, rather than as something new and unfamiliar. For this reason, Canada spent \$340-million building it, compared to \$130-million from the U.S. "It's an expansion of a traditional shipping pattern," says Dr. Pierre Camu, vice-president of the St. Lawrence Seaway Authority, the Canadian equivalent of the U.S. SLSDC.

**Physical obstacles.** U.S. shippers—even those near Lake ports—have largely shied away from the Seaway and their reasons put the problems the Seaway faces clearly into focus.

The biggest physical obstacle to more traffic is a lack of deep water. It will be mid-1962 before the Corps of Engineers finishes deepening connecting channels near Detroit and at Sault Ste. Marie, and 1964 before the majority of Great Lakes harbors are dredged to the Seaway's 27-ft. controlling depth.

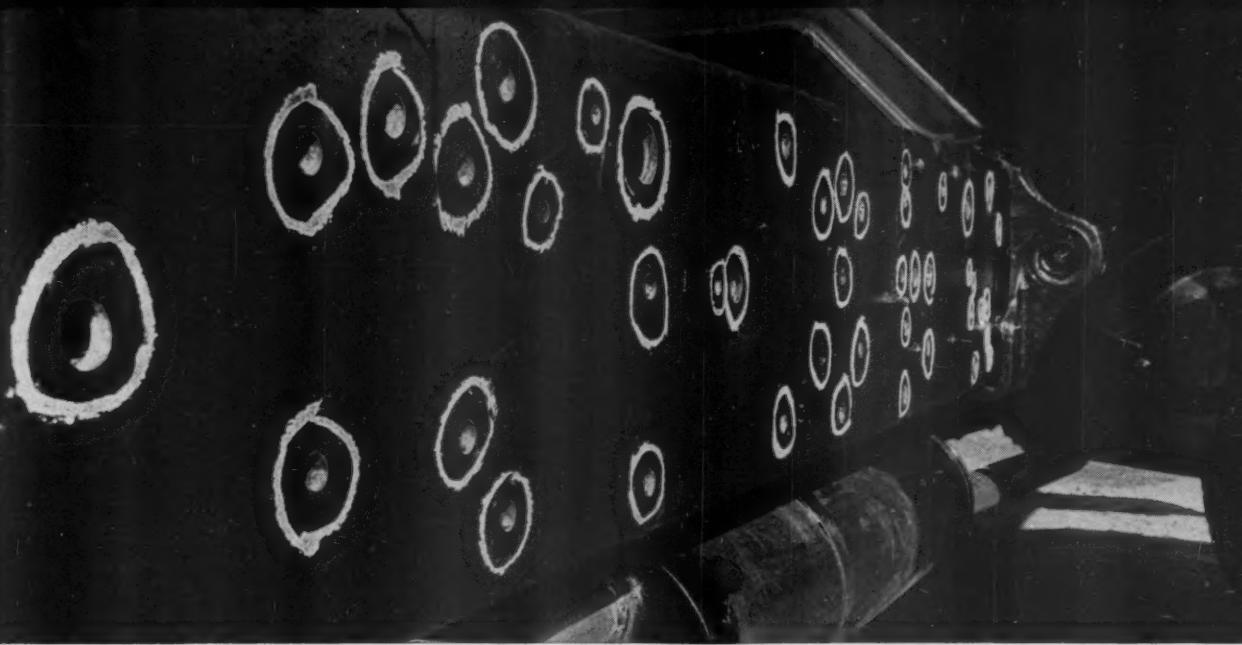
Bulk cargo shippers feel the pinch most keenly and 90% of Seaway tonnage is—and will remain—bulk cargo. Most grain boats now take on a partial load at Lake ports, then top out at lower St. Lawrence ports—Montreal, Quebec, Three Rivers, or Baie Comeau—where the water is deeper.

Seaway bulk cargo rates reflect this double handling. Chicago shippers pay an average 45¢ to 55¢ per cwt. to ship grain via the Seaway to Europe, against 25¢ to 27¢ per cwt. to ship the same grain on giant bulk carriers directly from Atlantic and Gulf ports.

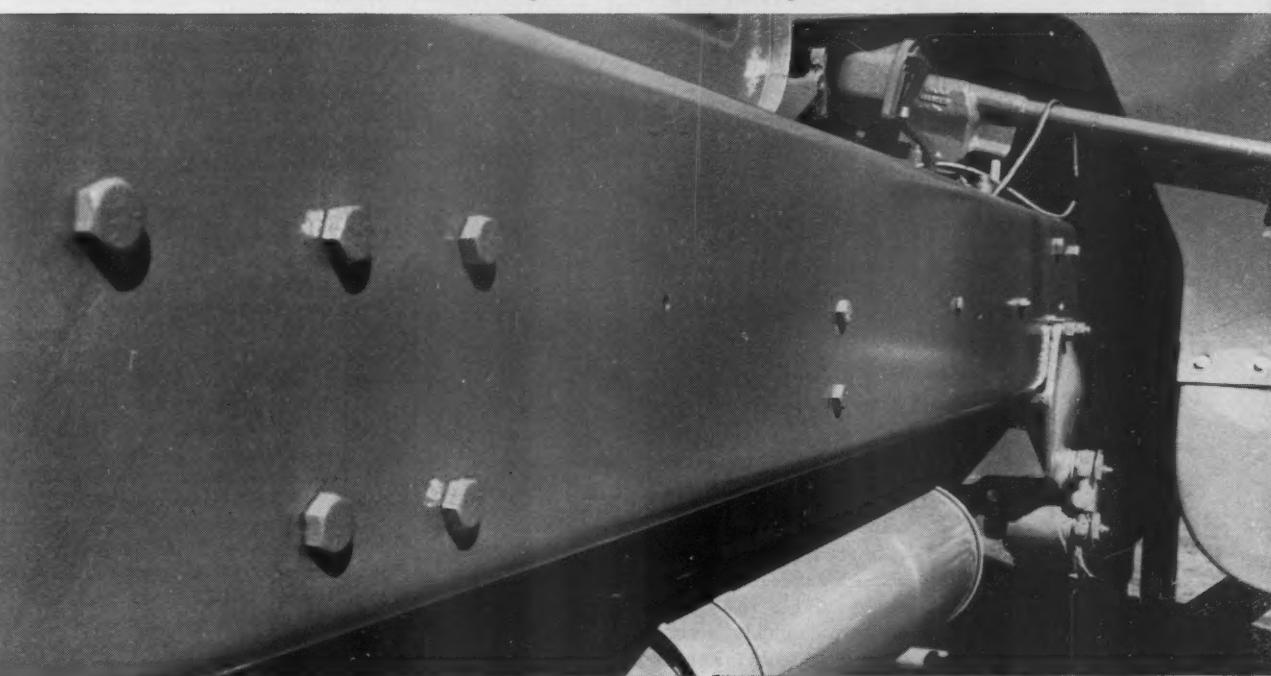
"The secret of a cheaper ocean rate out of Lake ports is a deeper draft," says Cargill, Inc.'s Vice-Pres. Clifford M. Roberts, Jr. A uniform 27-ft. depth throughout the Great Lakes might cut Seaway grain rates as much as 12¢ per cwt., he believes.

Some critics insist even 27 ft. won't be enough at a time when shipbuilders are turning out bigger and bigger bottoms. But Seaway officials insist that 80% of world shipping can negotiate the 27-ft. limit, and Army engineers say the cost of further deepening locks and canals would be prohibitive.

**Railroads fight back.** Competition



Chalk marks circle surplus holes in frame of mass-produced truck



White truck frame

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Makers of mass-produced, assembly-line trucks punch their frames with every possible combination of holes to accommodate dozens of variations in components. Some of their frames have so many extra holes they look like Swiss cheese.

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steel frames are custom-drilled with the exact number of holes needed for *your* set of components. No more.

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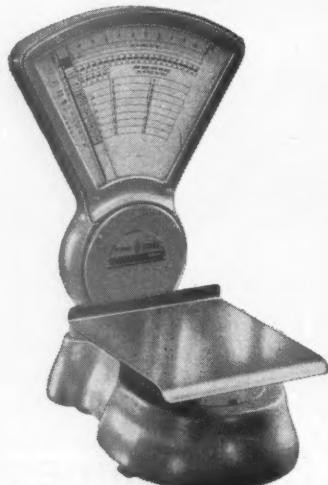
the difference between a mass-produced, assembly-line truck and a truck from WHITE—the company that stays close to its customers—and listens when they speak.

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Ask the nearest Pitney-Bowes office to show you any of eight models, including two for parcel post. Or send for free illustrated booklet.

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comes from coastal ports, railroads, and barges. Railroads that doggedly fought the Seaway struck back in 1959 with bargain export-import rates on profitable long-haul traffic to coastal ports, but not on less profitable short-haul runs to Lake ports. Seaway people call the present rate structure inequitable and point to such examples as these:

▪ A Central Illinois shipper now pays about 15¢ per cwt. to move grain 120 miles by rail to Chicago and just 32¢ per cwt. to ship it 800 miles to New Orleans.

▪ Some Western shippers can send grain 900 miles to Gulf ports for less than it can be moved 500 miles to Chicago.

Milwaukee port director Harry C. Brockel blames the loss of 25,000 to 30,000 tons of flour since midsummer on a rate cut by Southern railroads on flour shipments to Gulf ports. A railroad executive answers: "We're not working for any port. We're a long-haul route and we want long-haul business."

Only a few Western railroads have established a similar export-import rate to Lake ports, and only the Chicago & North Western has been active in seeking new traffic for the ports it serves.

Seaway people feel that united action by Great Lakes ports in time will force railroads to knuckle under. The Seaway got one break this year when the Commerce Dept. cleared the way for the SLSDC to intervene in railroad rate cases before the Interstate Commerce Commission.

Barges, with attractive low rates, have skimmed some cargo from the Seaway, principally Western grain, which has been going down the Mississippi instead of to Lake ports.

**Losers.** Among ocean ports, both New Orleans and Baltimore point to some—but not much—tonnage lost to the Seaway. Coastal ports benefit from a slowness among U. S. and foreign shippers to abandon more familiar means of transportation for the Seaway. Even shippers who use the Seaway must still put up with longer sailing times, frequent delays, largely unpredictable schedules, a lack of familiar U. S. steamship lines, and generally weak supporting services.

General cargo rates from Seaway and coastal ports are competitive, and savings inherent in all-water shipment usually give a cost edge to the Seaway—when other conditions are equal.

But conditions aren't always equal. Shipments take about four weeks to reach Europe via an Atlantic port against 35 to 40 days via the Seaway. Also, shippers must find

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alternate overseas routes in winter.

Not all ports are fully ready for the Seaway. Chicago's Lake Calumet, despite its enormous potential, still has only 21 ft. of water and money voted by Congress this year will pay only for deepening the outer harbor and one mile of the Calumet River. More money is needed to dredge and straighten the remaining six miles of river and relocate five railroad bridges that now impede navigation. It now takes eight hours to move a ship from Lake Michigan into the harbor. Other ports have similar problems, though none so acute.

**Subsidy flops.** Despite a new Maritime Commission subsidy program designed to bring more U.S. lines into the Seaway, only American Export Lines, Inc., now has scheduled service to Seaway ports. A few U.S. lines such as Moore-McCormack Lines, Inc., come into the Seaway for special cargo, and a number of U.S. tramp ships ride the Lakes. But the subsidy program failed to bring any new U.S. lines into competition with the 40-odd foreign lines now serving the Seaway. Most still recall the example of Grace Lines, Inc., which lost more than \$1-million when it tried the Seaway in 1959.

American Export expects to break even in 1961 after losing \$500,000 in 1959 and \$100,000 in 1960. The line still faces high operating costs—up to \$2,500 a day—and a relative scarcity of cargo.

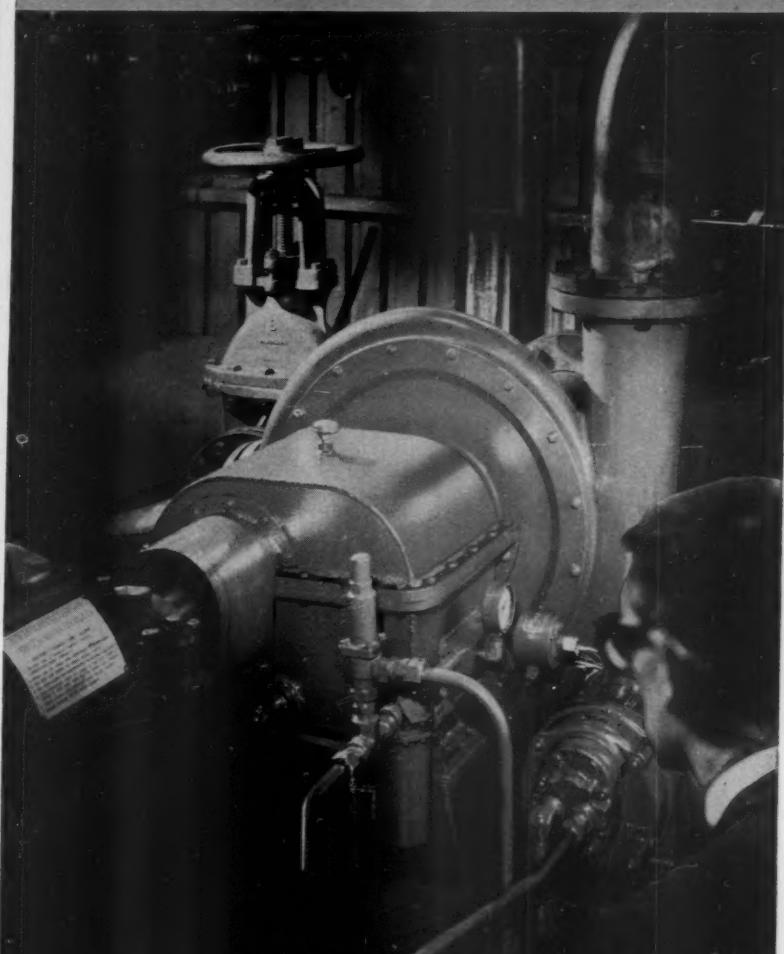
**More military cargo.** Outside factors have depressed tonnage in two areas—Canadian iron ore and military cargo—though time may clear up both.

Imports of Canadian ore—30% of total Seaway tonnage in 1959—have lagged badly the past two seasons in the face of spotty steel production, wider use of low-grade, concentrated ore from Minnesota, and a slide in ocean shipping rates that has made it more practical to ship ore on deep-draft carriers through Atlantic ports to Eastern mills.

Only 70,000 of an estimated 12-million tons of military cargo went through the Seaway in 1960, and this year's total will be lower still. Senators from six Great Lakes states this summer heeded a plea from port directors and are united in requesting Defense Secy. Robert McNamara to route more military cargo through the Seaway.

Most Seaway experts think all these problems will be worked out in time. "I've always thought the Seaway's first 10 years would be a trial-and-error period," says Capt. John J. Manley, Chicago's port director. **End**

*Now I See What They Mean When They Say,*



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# Are airlines going the way of railroads?

**The airline industry**—along with its money lenders and regulators—has, of late, been examining its very soul. And well it might. If fundamental changes aren't soon made, several companies are headed for calamity.

Perhaps nowhere has this self-examination been more rewarding than at an air transportation symposium sponsored by the Connecticut General Life Insurance Co., of Hartford. Here it was readily apparent in panel after panel that somehow, somewhere the industry had managed to get onto the downward path previously blazed by the railroads.

**Market in Jet Age.** A little over six years ago the industry was nothing if not ebullient. Jets were being bought on the basis of each airline's own market forecasts—forecasts that, when added together, totaled far more than 100% of the market. Each carrier was confidently fighting for new routes to compete with already-established airlines—and in most cases these were granted. Institutions seemed glad to lend money at 3% or a little over for new planes.

All these evidences of optimism were based on an assumption that traffic would continue to grow at roughly the same annual rate as it had since the end of World War II, namely 10% to 15% compounded. But it hasn't. The assumption was wrong.

**Overshot the mark.** Just when jets arrived in their greatest numbers—with each jet capable of doing the work of three piston planes it replaced—and just when airline routes became most competitive, the industry ran out of most of the rail and bus passengers it could easily divert. Today, some 10% to 15% of the country's population flies. And that, for the time being at least, seems to be the outer limit of the market.

In other words, the industry overshot. It bought too many seats with borrowed money, and now it is flying too many of them empty. In the first eight months of this year it has suffered a net loss of \$13.3-million.

**Trial and error.** Faced with a steadily worsening situation, compounded by a recession, many carriers earlier this year sought a way out of their problem by seeking to expand the market on a trial-and-error basis. Through a variety of fare reductions with strings attached [BW Aug. 12 '61, p32], they hoped to fill empty seats with new passengers, while holding onto their old passengers at regular prices. Most of these promotional schemes, however, failed to do the job.

Within the past few weeks the industry has shown signs of going in another direction in its pricing policy. It has started to think like an electric utility—or a railroad. Since the market appears to be a relatively finite thing composed of people who must fly, this reasoning says, fares should be set at a level to bring in an adequate rate of return on this existing business.

But Civil Aeronautics Board Chmn. Alan S. Boyd abruptly scotched this at Hartford. "To figure out on the basis of present traffic volume how much of a fare

increase is needed to cover expenses and a reasonable profit is, to me, an exercise in futility and sure death," he said. "No one will tolerate a public service industry which runs planes half filled with captive passengers."

If the market seemingly can't be expanded by fare reductions aimed at the occasional traveler, and if the CAB isn't going to permit fare hikes for greater profits on the "captive" traveler, then what is the answer?

The trouble with the airline industry, said one Hartford panelist, is that it is falling into the same trap as the railroads. Railroaders were so in love with trains that they never could communicate the advantages of rail travel to non-train-lovers. They took it for granted. Airline management shows signs now of making the same mistake over jets.

Another failing discussed was the pitch of airline advertising. The industry spends \$50-million a year saying that airline A has the same low prices as airline B, or that airline C flies airplanes just as fast as airline D. Why, asked another panelist, are airlines spending so much money battling each other over the 10% that does fly instead of going after the 90% that doesn't?

**Divided responsibility.** As the sessions progressed, Harvard's Prof. John Meyer pointed out that overshooting a market is nothing new for a growth industry. It has happened to such industries as autos, television, and semiconductors. What is different about airlines, he said, is that they're regulated.

Throughout their growth period, the fact that there were two sets of managements, private and governmental, "tended to dull the perceptions and responses of both, since each always cherished the hope that the other would accept responsibility for making difficult decisions." Certainly private management today is blaming the government for its predicament, saying that a wiser CAB would have turned down more demands for additional routes.

**What next?** But this is all in the past. What can be done now to correct the situation? Excess capacity can't be eliminated by the normal means of driving the least efficient companies into some other line of business—or out of business altogether. Political considerations prevent it.

A new compromise must be found between outright government ownership that supports excess competition, and outright free enterprise that winds up in sparse monopoly.

In his speech, Boyd indicated that his new compromise would result in more rather than less regulation. "Mergers," he said, "probably present the best solutions. But time is of the essence. If carriers will not act in their own interests and in that of the public, the board should institute studies to develop detailed criteria for mergers . . . concerning specific carriers. Where we do not have the power to rectify an undesirable situation, at least we can expose it and recommend corrective action."

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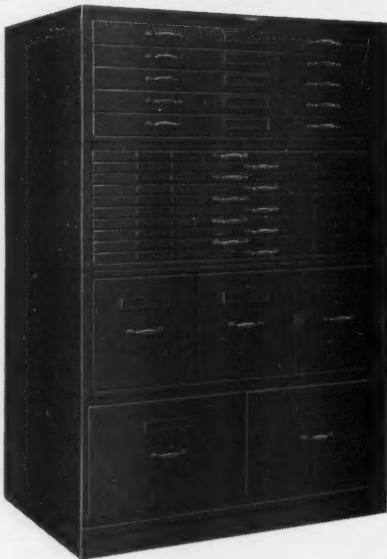
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# New men to match a new line

**Endicott Johnson puts best foot forward after restyling management, merchandising**

**When P. J. Casella**, an ex-Radio Corp. of America executive, succeeded Francis A. Johnson as president of Endicott Johnson Corp. six weeks ago, this change appeared—on the surface—to be a sudden case of grafting one badly needed professional manager onto a family-style corporate tree.

Casella, a novice in the shoe industry, is the first president of the nation's No. 2 shoe producer to be chosen from outside the founding Endicott and Johnson families. To make room for him in the 78-year-old business, which has been losing money since mid-1960, Frank Johnson, grandson of one of the founders, moved to board chairman.

But Casella's election was no sudden move of desperation. Rather, it is an end product of an almost total company reorganization Frank Johnson and his advisers began planning toward in 1957, when Johnson became president.

Since mid-1960—a period that parallels the time EJ has been floundering in red ink—the company has been pushing through a crash program to rid itself of hidebound managerial and marketing patterns. As Chmn. Johnson puts it: "They were very successful for their day. But this is another day."

## I. Shedding the past

Before the intensive reorganization began, management at EJ was synonymous with one-man rule under Frank Johnson's predecessors. And management's chief concern centered on the production and distribution of one type of footwear—sturdy shoes for the workingman.

Though the company seemed to be getting along nicely under this system, there were signs of stress



**Past and future:** Beside statue of George Johnson, a founder of Endicott Johnson Corp., Chmn. Francis Johnson (left) and Pres. P. J. Casella survey the high-style shoes that they're banking on to boost their position in tomorrow's market.

25 1/4	19 1/4	AmCBarge	1.20	12	23 1/4	23 1/4	23	23 1/4	..
29 1/2	18 1/2	AmConsInd	1b.	4	24 1/4	24 1/4	24 1/4	24 1/4	+ 1/2
59 1/2	40	AmCryS	2	1	46 1/4	46 1/4	46 1/4	46 1/4	+ 1/2
93	84	AmCry pf	4.50	20	91	91	91	91	+ 1/2
50	39	AmCyan	1.60	..	163	41 1/2	42	41 1/2	41 1/2
47 1/2	29 1/2	AmDistill	1	6	45 1/2	45 1/2	45	45	+ 1/2
71 1/2	57 3/4	AmEl Pw	1.88	26	70 1/2	70 1/2	70	70	..
39 1/2	20 1/2	AmEnka	.20	9	7	38 1/2	..	..	..
23 1/2	13 1/2	AmExport	2.50	9	..	..	..	..	..
12 1/2	8 1/2	Am&FP	.50	..	..	..	..	..	..
32 1/2	24	AmHardy	..	..	..	..	..	..	..
89 1/2	82 1/2	AmHome	..	..	..	..	..	..	..
35	26	AmInspec	..	..	..	..	..	..	..
17 1/2	13 1/2	AmInspec	..	..	..	..	..	..	..
25 1/2	20 1/2	AmI	..	..	..	..	..	..	..
63 1/2	41	AmI	..	..	..	..	..	..	..
48	34 1/2	AmI	..	..	..	..	..	..	..
37 1/2	24 1/2	AmI	..	..	..	..	..	..	..
20 1/2	13 1/2	AmI	..	..	..	..	..	..	..
53 1/2	43	AmI	..	..	..	..	..	..	..
21 1/2	16	AmI	..	..	..	..	..	..	..
49	17	AmI	..	..	..	..	..	..	..
49 1/2	3	AmI	..	..	..	..	..	..	..
78 1/2	54	AmI	..	..	..	..	..	..	..
46 1/2	32	AmI	..	..	..	..	..	..	..
62	41	AmI	..	..	..	..	..	..	..
42 1/2	27	AmI	..	..	..	..	..	..	..
50 1/2	33 1/2	AmI	..	..	..	..	..	..	..
26 1/2	16	AmI	..	..	..	..	..	..	..
72 1/2	54	AmI	..	..	..	..	..	..	..
145 1/2	136 1/2	AmI	..	..	..	..	..	..	..
76 1/2	60 1/2	AmI	..	..	..	..	..	..	..
127 1/2	119	AmI	..	..	..	..	..	..	..
27 1/2	18	AmI	..	..	..	..	..	..	..
16 1/2	12	AmI	..	..	..	..	..	..	..
35 1/2	27	AmI	..	..	..	..	..	..	..
96 1/2	77	AmI	..	..	..	..	..	..	..
37 1/2	2	AmI	..	..	..	..	..	..	..
34 1/2	36	AmI	..	..	..	..	..	..	..
130	103	AmI	..	..	..	..	..	..	..
102 1/2	64 1/2	AmI	..	..	..	..	..	..	..
130	121	AmI	..	..	..	..	..	..	..
63	41	AmI	..	..	..	..	..	..	..
27	19 1/2	AmI	..	..	..	..	..	..	..
19	12 1/2	AmI	..	..	..	..	..	..	..
34 1/2	22 1/2	AmI	..	..	..	..	..	..	..
27 1/2	17 1/2	Ampea	..	..	..	..	..	..	..
58 1/2	32 1/2	Ampea	..	..	..	..	..	..	..
65	44	Anacoma	1	..	..	..	..	..	..
44 1/2	33 1/2	Anacoma	W C	..	..	..	..	..	..
45 1/2	33 1/2	Anch	H G	1.40	..	..	..	..	..
44 1/2	37	Ander	Clay	2	4	42 1/2	42 1/2	42	42 1/2
43 1/2	31 1/2	Arch	Dan	2	4	39 1/2	39 1/2	39	39 1/2
69 1/2	37 1/2	Argo	Dil	1.20b	272	71	71 1/2	69 1/2	70 1/2
42 1/2	37 1/2	Ariz	P Svc	.72	38	42	43 1/2	42	43 1/2
79 1/2	67 1/2	Armco	Stl	3	..	48	71 1/2	71 1/2	71 1/2

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below the surface. According to long-time EJ director Robert V. Horton, partner in Goldman, Sachs & Co., investment bankers: "The company was making money when the reorganization began. But it was not fundamentally prosperous.

"Domineering and narrow management had brought the organization to the point where people didn't know what their jobs were, or where their authority lay, or what decisions they were responsible for. EJ was still 'making shoes for the blue-collar trade, when the blue-collar trade was disappearing.' It had no real sales department and no real sales point of view."

**Turnabout.** To correct this situation, Horton says, Endicott Johnson started on its realignment. Just how extensive the turnabout has been, and how much has been accomplished, can be glimpsed in a tour of EJ's new management and sales headquarters in Endicott, N. Y.

Until this year, these activities were scattered around the four small towns in the Susquehanna Valley of upstate New York—Endicott, Binghamton, Johnson City, and Owego. It was in this area that shoemaker-founder George F. Johnson and his successors developed what he liked to call "an industrial democracy"—a prosperous, paternalistic business.

**New patterns.** There's little trace of the old influence in the company's new building. The shoes on display in the headquarters showroom are largely high-style shoes for children, teenagers, and young men and women—the major growth markets of the future, EJ believes. The traditional work shoe has not been forsaken, however, part of the line is now labeled, with a Madison Avenue touch, "Saturday Shoes, for the man who owns his home in the suburbs and goes to work in a sports shirt."

EJ now has a sales point of view—with a vengeance. Three major divisions of the company, each new or reorganized, are in the merchandising area. They are pushing sales to 18,000 independent retailers and to mail order houses, wholesalers, and chain and department stores; reexamining the 600 company-owned retail stores with an eye to closing down unprofitable ones and opening new ones; and getting into the discount business through leased departments in volume retail outlets.

### II. Rebuilt team

Of the 10 top EJ officers, five have joined the company since 1960.

**Newcomers.** The newcomers are Pres. Casella and four vice-presi-



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NAME \_\_\_\_\_  
POSITION \_\_\_\_\_  
COMPANY \_\_\_\_\_  
ADDRESS \_\_\_\_\_  
CITY & STATE \_\_\_\_\_  
NUMBER OF CARS OPERATED \_\_\_\_\_

dents: William J. Benjes, Sales, former vice-president of Florsheim Shoe Co., an International Shoe Co. subsidiary; Edgar Mooney, Marketing, who headed his own marketing firm and was a marketing vice-president at Bates Mfg. Co.; Edward A. Castro, Retailing, former vice-president of City Specialty Stores, Inc.; and Eli White, Manufacturing, who was general manager of manufacturing for Genesco, Inc., a major shoe producer.

Newcomers also figure significantly on EJ's board of directors.

In 1959, Horton was the only outside director, carrying on in EJ's tradition of having on its board at least one partner of Goldman, Sachs & Co., which had sold EJ's stock when it went public in 1919. Now the 15-man board consists of six outside directors, seven long-time corporate officers, and EJ's new president and vice-president of manufacturing. The board's executive committee is composed solely of outside directors, plus Johnson, Casella, and Executive Vice-Pres. Raymond A. Mills.

**Native son.** For EJ, Pres. Casella is something of a "find." His emotional stake in the company's success goes well beyond the usual financial and career interests of a professional manager.

As he explains it:

"The corporation itself presents a very interesting challenge and opportunity. But the offer to come to EJ also gave me the opportunity to come back home and live among my family and old friends. For Binghamton is my home town."

Casella, whose parents emigrated from Italy to Binghamton when he was six, left his home town a few years after finishing high school and for the next 20 years managed a successively larger series of stores for Montgomery Ward & Co.

In 1954 he joined RCA as a vice-president. He was later president of Canada's RCA-Victor Co., Ltd., and a trouble-shooting executive in Italy for an RCA subsidiary in Rome. At the time he resigned from RCA in October, 1960, he was executive vice-president in charge of RCA's consumer products operation.

### III. Professional planning

Like several of their new key officers Casella was chosen by EJ management from among executives recommended by management consultants Booz, Allen & Hamilton, who came into the EJ picture early in 1959.

**Takeover?** Because of Booz, Allen's work, officials in two competing



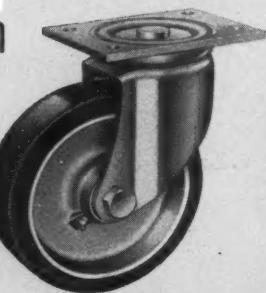
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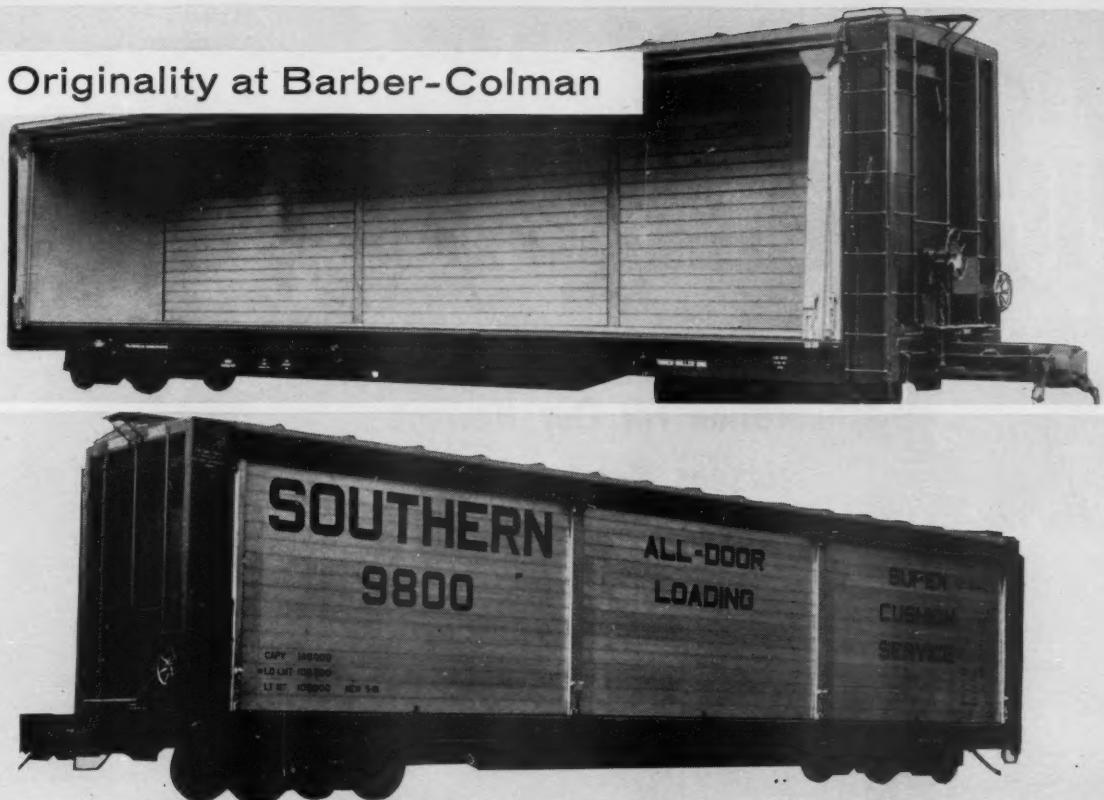
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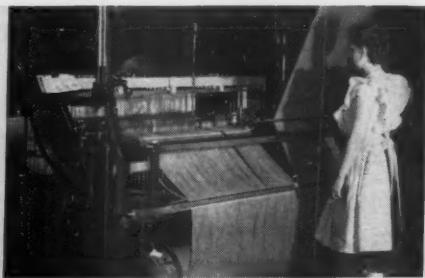
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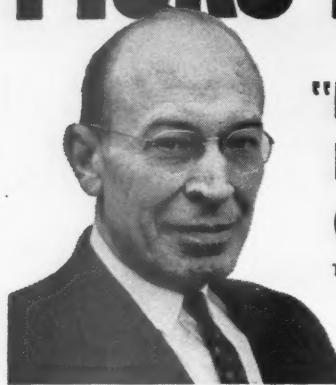


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shoe companies have seen the changes as "a complete takeover of EJ management by consultants."

To this, Booz, Allen partner, James A. Newman, replied: "We were called in by EJ management in 1959. We made our reports to management. And by March, 1961, we were finished with the major part of the work we were retained to do."

Chmn. Johnson takes a good-humored view of the industry grapevine. "A good share of our planning in organizational and marketing areas has come out of Booz, Allen suggestions," he says. "But we had a pretty good idea of our shortcomings in 1959 and we knew what our competitors had been doing. Our need was for professional help in confirming our thinking and in working out a solid plan."

"We hadn't recognized postwar changes in the national economy, in marketing methods and outlets, or in consumer tastes and buying habits. While we were standing still, our competitors were building the new concepts into their businesses."

**Roadblocks.** In EJ's hectic efforts to reorganize, it has run up against two major problems that have evidently slowed it down somewhat.

One was an attempt by Glen Alden Corp. to gain control of the company early this year [BW Jan. 7'61, p76]. The attempted raid evidently set back for several months EJ's tentative timetable for reorganization.

The second obstacle was how to tie sales more closely to production. "We set up a sales-oriented company and then went back and geared in manufacturing to make sure that everything fitted. At first, we felt sales were most important. As it developed, we realized the importance of manufacturing and how that had to be tied in," Chmn. Johnson comments.

**Red to black.** In the first half of 1961, the company racked up an earnings deficit totaling \$2.7-million or \$3.56 a common share, to be added to the \$2.22 loss per share in 1960, when the deficit reached \$1.5-million.

No company source expects the drain to continue much longer. But there is no hope that dividends, passed in 1961 for the first time since 1919, will be paid next year.

"We do not expect anything spectacular in the next two years," says Johnson. "But we certainly expect to show gains."

"The problems are serious and sensitive," Casella states. "But we hope to develop some reasonably good black figures by 1963." **End**



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# Coast management consultants pledge ethical behavior

At suggestion of consultant worried about industry's ethics, San Francisco Better Business Bureau drew up code of conduct. So far, 43 local consultants have signed

**The mail that flows** across the desk of Vernon A. Libby, general manager of the San Francisco Better Business Bureau, attests to the durability of the shady characters who populate the underworld of business—the fast-talking salesmen of shoddy merchandise and shabby services.

Now, a different ingredient has been added to the flow. For the past 10 weeks, Libby has been receiving signed avowals from 43 local management consultants that they will adhere to a code of standards promulgated by the BBB at the request of a group of San Francisco consultants.

Formal "standards of practice" are nothing new at the San Francisco BBB. Libby has been pushing them since 1955 when consumer complaints against television servicing outfits mounted to flood proportions. By getting the industry to abide by ethical standards, he and his staff have reduced their complaint load by 60%. He has done the same thing with 25 other categories of merchandising, and now is working on a code for builders of fallout shelters.

**Special case.** The management consultants' code, however, is the first move into a field that has adorned itself with the label of professionalism.

Management consulting can be a noble profession. Among its outstanding practitioners are such nationally recognized firms as Booz, Allen & Hamilton; McKinsey & Co.; Cresap, McCormick & Paget. The profession also has local members of impeccable reputation.

Consulting also can be a shady business. There's no local, state, or national licensing body to screen and police the phonies.

To remedy this at the national level, responsible consultants have banded together as the Assn. of Consulting Management Engineers, with headquarters in New York. Membership qualifications are rigid. Among the thousands in the U.S.

who call themselves management consultants, only 39 are members of ACME.

**Consultant's idea.** Last spring, Vernon Libby was approached by a San Francisco consultant who told him about the growing number of new men in the industry. "Before we have any serious ethical problems," he said, "it might be a good idea to adopt some standards."

Libby held some preliminary talks with a small group of consultants. One of these agreed to draft a table of standards based on ACME's published "code of ethics and recommended practices."

In August, he sent the draft of proposed standards to the more than 100 consultants of various kinds he found listed in the yellow pages of the San Francisco telephone directory. All were invited to comment and suggest changes in the draft.

The standards were adopted late in August with only minor changes. They are binding only on those who sign the formal statement.

**The standards.** The "minimum standards of conduct and competence" adopted by the San Franciscans closely follow the ACME code. Subscribers are pledged not to pay fees for procurement of new clients; not to accept assignments on a contingent fee basis; to put in writing all understandings with clients, including the basis of fees; not to serve competitive clients without the full knowledge of both; not to raid either a client's or a competing consultant's personnel; to avoid flamboyant advertising; not to accept fees or commissions from companies whose products or services they recommend to clients.

The identity of the 43 who have signed and those who have not is Libby's secret. Under BBB rules, conformists are not permitted to capitalize on their status as signatories. Libby's possession of the signed document, however, gives him a sound basis for intercession should a client report to the BBB any deviation from the code. **End**

**More news about research:****Page 106, Atomic ship nears final tests****Page 113, Computer takes over lab****Inorganic fuel cell developed for use in outer space**

A compact inorganic fuel cell for use in outer space has been developed at Chicago's Armour Research Foundation. The cell, which uses hydrogen and oxygen for its fuel, is said to be more efficient than organic fuel cells at high temperatures.

The cell, about the size of a 25¢ piece, consists of an inorganic ion-exchanging membrane. Electrons are given off by a hydrogen reaction on one side of the membrane, while oxygen on the other side creates a void in the electrons. As hydrogen ions pass through the membrane to complete the circuit, the flow of electrons from anode to cathode completes the electrochemical reaction.

Experimental cells have produced .95 volts over an open circuit, according to the developers, Dr. Jack Bregman and Dr. Andrew Dravnieks. They say their cell maintains peak efficiency at 100C, while organic cells begin to lose efficiency at 70C. Bregman also says that the cell, unlike the organic type, does not need liquids to keep the membrane pliant.

The cell was developed for use in communications satellites, space telemetry devices, and to supply power for equipment used in space flights. Because of its small size it could also be useful in lightweight communications equipment.

**Battle getting brisker over ownership of communications satellite system**

The hassle over who will own the proposed worldwide communications satellite system is rivaling the research problems in perfecting it. After months of debate, a report by an industry ad hoc committee, and Congressional hearings, the issue is still as unsettled as ever. The controversy currently hinges on whether ownership should be limited mainly to the big international communications companies or spread wider to include domestic non-communications companies and even public stock offerings.

Following months of discussion, the Federal Communications Commission last July 25 called on an ad hoc committee composed of international communications companies to come up with an ownership proposal by Oct. 12. When it did, the plan was immediately blasted by domestic carriers and others as too heavily weighted in favor of the international companies.

This week, domestic carriers led by General Tele-

phone & Electronics Corp. formally protested to the FCC. The issue was also aired before the Senate Small Business subcommittee on monopoly headed by Sen. Russell B. Long (D-La.).

The Administration's antitrust chief, Lee Loevinger, told the Congressional committee that the Justice Dept., too, was not happy with the committee's plan.

Long wanted to know whether the FCC's attitude had forced other companies to drop out of the ownership race, referring specifically to the recent withdrawal of General Electric Co. FCC Chmn. Newton N. Minow replied that Long was drawing his conclusions too hastily, that the commission had not forced anyone out.

To ease the situation, the White House will give Congress its own ownership plan early next year and it is likely to include partial public ownership, with the government designating company operators.

**Japanese scientists develop typewriter that prints what you say**

Last week, at its 62nd annual meeting the Acoustical Society of America heard a promising report on one of the acoustical scientist's fondest dreams: a phonetic typewriter.

Two Japanese scientists at Kyoto University have developed a research model of a typewriter that prints out exactly what is spoken into it. Now that they have a model for Japanese, they are working on one that will be multilingual.

Using a computer-type system of transistors and diodes, the researchers have been able to construct a machine that can receive the impulses of a speech sound wave, break down these impulses into recognizable factors, and print out the spoken words instantaneously.

Although the device, called Sonotype, still is in research and not ready for the marketplace, U.S. companies are already thinking about possible applications.

**Research briefs**

**Fluor Corp. Ltd.**, of Los Angeles has been picked by the Atomic Energy Commission to build its Advanced Test Reactor (ATR)—the world's largest—at the National Testing Station, Idaho. The \$40-million ATR, when completed in 1964, will have an operating thermal power level of about 250,000 kw. or 75,000 kw. more than the most powerful existing nuclear test reactor.

A method of immunization against a major body toxin that reaches dangerous levels in cases of cirrhosis of the liver is claimed by two scientists at the University of Chicago. The immunization procedure involves a plant protein called urease. Injections of the protein stimulate the body to produce antibodies and break the chain that leads to a build-up of dangerous toxin.

# Atomic merchant ship nears final tests

**Savannah is ready to proceed with tricky job of loading fuel for its reactor. Then the reactor will be started up and the ship will head out to sea for 18 months of tests**

**Nation's** first nuclear-powered merchant ship, the Savannah, is being readied for sea trials at Camden, N. J.

**The world's first** nuclear-powered merchant ship, the U. S. Savannah, approached its last big hurdle last week as workmen prepared to load fuel into its reactor power plant.

Actual loading of the Savannah's pressurized water reactor awaits a go-ahead from the Atomic Energy Commission, which is reviewing reports of the latest tests of the non-nuclear portions of the power plant. While awaiting approval from AEC, however, Savannah crewmen are running full-scale dress rehearsals, using dummy fuel assemblies in the actual loading process (pictures). The ship was built at Camden, N. J., and is now moored in a slip there.

**Safety precautions.** The idea of these rehearsals is to develop safe and practical means of loading and unloading the uranium oxide fuel

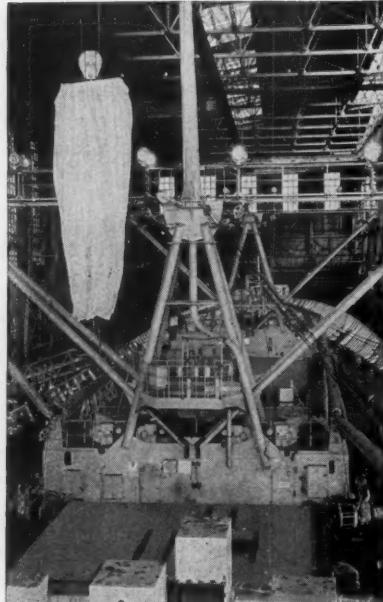
elements and to make certain each crewman knows exactly what to do. Though much work remains to be done on staterooms and other portions of the ship, the loading of fuel is the last tough job before the Savannah puts out to sea.

After the loading, the reactor will be tested—first at a very low power, then with gradual increases in power. If these tests are successful, as everyone expects they will be, the ship will be turned over to its owner, the Maritime Administration, by the builder of the hull, the New York Shipbuilding Corp. The reactor was built by Babcock & Wilcox Co.

**Sea tests.** Then will follow about 18 months of sea tests. These will be performed by States Marine Corp. of New York, which has been hired by Maritime to operate the



**First step** in fuel loading is unboxing of fuel assembly and covering it with plastic hood to keep out dust.



**Shrouded** fuel assembly is lifted over reactor by crane. In this practice drill, a dummy fuel assembly is used.



**Crane** lowers fuel assembly into the reactor. Crewmen wear plastic suits to keep lint away from fuel and reactor.

ship. States Marine representatives say they cannot tell where the Savannah will operate after the sea tests, but they're hopeful there will not be too great a delay.

"The government will still own the ship and call the shots as to where she can go and what she can carry," says a States Marine spokesman.

The Savannah was authorized by Congress as a joint project of the Atomic Energy Commission and the Maritime Administration to demonstrate the feasibility of using nuclear energy to power a merchant ship. Government authorities are exercising extreme caution because they know the importance of having this first experiment go well. But they're conscious, too, of what the critics are saying—that the Savannah is already way behind schedule and still slipping. With the tricky part of the operation—fuel up and activation of the ship's reactor completed—there's good reason to assume that the pace will quicken.

**Radiation shielding.** The ship is built to carry 60 passengers, a crew of 110 men, and 9,400 tons of cargo. Staterooms and crew cabins are air-conditioned and roomy. A swimming pool has been provided for passengers. A large glass-enclosed lounge contains a bar. Sufficient shielding has been put around the reactor to prevent any radiation from reaching passengers or crew. Slight amounts will reach the cargo, however.

Whatever it carries, the Savannah



**Constant check** is kept on the radiation level in the reactor compartment during the fuel loading process.

BUSINESS WEEK November 18, 1961



**Last step** in fuel loading is guiding of fuel rods into the reactor core. After that the cap is placed over the reactor. Then crewmen leave and reactor is started up by remote control. Actual fuel loading awaits go-ahead from AEC.

RESEARCH 107

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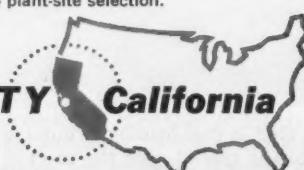


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will not be an economic ship. The construction cost of nearly \$47-million is several times that of a comparable conventional ship. And shipping experts say operation costs will be at least 20% more than for a conventional ship.

But neither the Maritime Administration nor the builders are concerned. The Savannah is a necessary first. The lessons learned during construction will make the next such ship much cheaper. Crews will be trained on the Savannah to operate future nuclear-powered ships.

States Marine engineers who will operate the reactor plant began training in September, 1958, at Babcock & Wilcox's Lynchburg (Va.) plant. Subsequently, they went to installations and operated a simulator built by Westinghouse Electric Corp. Last month AEC licensed 17 States Marine engineers as competent to operate the plant.

**Paintstaking work.** Fantastic care is necessary in loading the reactor. All crewmen taking part in this operation are completely clothed in nylon garments. Lint from ordinary clothes, falling on the fuel assembly or into the reactor core, could affect operation of the reactor. Even glasses are strapped to the face to prevent them from falling off. The fuel assembly is vacuum cleaned before it goes into the reactor.

"If someone should drop his glasses in the reactor it would cost at least \$25,000 to clean up," says a spokesman for New York Shipbuilding. "We would have to dismantle the reactor."

Maritime Administration people say the Savannah will cruise at about 20 knots and have a top speed of 22 knots. But shipping experts believe the ship will be much faster.

**Collision insurance.** In addition to heavy shielding to protect passengers and crew, the ship has been built to prevent collision damage to the reactor. On each side of the reactor are collision bulkheads. Beyond these are heavy, continuously welded plates, then 24-in. of alternate layers of 1-in. steel and 3-in. redwood. The shielding runs 17 ft. deep along the reactor compartment on each side of the ship.

Because of high construction and operating costs, it is almost certain that subsequent nuclear-powered merchant ships will be built by the government. The next such ship is likely to be a tanker built for the Maritime Administration.

The Navy has more than 20 nuclear-powered submarines, an aircraft carrier, and a cruiser. A nuclear-powered frigate also will be in operation soon. **End**

# Computer takes over laboratory for Air Force psychologists

**First computer-controlled laboratory for psychological testing will speed up probing of man's mental processes, and promises important military and industrial applications**

**At an Air Force Systems Command** base on a quiet end of Hanscom Field in Bedford, Mass., 35 research psychologists of the Electronic Systems Div. are busily at work designing experiments in decision-making. Their goal: someday to explain how man's higher mental processes work.

To tackle this problem, ESD scientists are employing one of modern science's most advanced tools—the high-speed electronic computer. Theirs is the first computer-controlled laboratory for psychological testing, and among the first automatic laboratories of any kind ever put into operation. It will be used for psychological experiments that scientists have previously found to be too long and tedious, inaccurate, or just plain impossible to carry out.

**Past roadblocks.** Using conventional research methods to record perceptions and responses of human subjects, psychologists have been reasonably successful in charting the simpler human reactions. But they have often been baffled in attempts to set up more complex experiments. For one thing, moods and other variables in an individual's response change from day to day, thus complicating long-term experiments. For another, psychologists in the past have been unable to modify stimuli quickly in accordance with a subject's changing responses.

Particularly frustrating, it has taken up to six weeks to prepare for an experiment that is run off in an hour, and up to six months to analyze the resulting statistical data. "Too often," notes one researcher, "psychologists have spent several months analyzing data, only to find that the data did not answer the question asked."

**Time-saver.** ESD scientists claim their new computer-controlled laboratory will either solve or greatly reduce these problems. "Moreover," says the lab's director, Dr. Herbert Rubenstein, "psychologists for the first time will be able to run sequential analysis—that is, refine the experiment as it goes along, based

on the subject's response to changing situations." By using sequential analysis instead of conventional static testing methods, a psychologist can save as much as six months in an experiment.

With the Cambridge, Mass., laboratory of Bolt, Beranek & Newman as consultants, EDS scientists have laid out their laboratory so it can carry on five different experiments at once, without human controls.

The usual psychological paraphernalia—such as devices for stimuli (tone generators, vibrators, and picture-flashers), and polygraphs and encephalographs to measure response—are hooked into a digital computer. The computer can run experiments measuring such things as reaction time, recognition, higher order decision-making, and sequential responses all at the same time, with either human subjects or mathematical models.

**Computer takes over.** A psychologist, for example, may start with a vague hypothesis, simply defining the general class of experiment. The computer will improve upon it. In fact, the computer is used to correct programming mistakes made by the experimenter.

The computer decides what equipment is needed for the experiment. It calibrates the equipment and, in case it malfunctions, stops the experiment and locates the trouble.

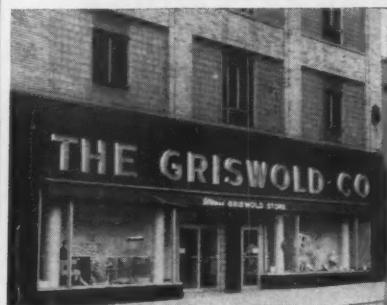
When an experiment is concluded, the computer will outline future experimental lines. And it also provides a refined mathematical model, so that further experiments can be run off immediately without a human subject.

**Military decisions.** One area the lab will focus on will be military decision-making. Take the case of a commander who must decide what planes, with what armament, range, and speed capabilities should be dispatched to investigate unidentified submarines. In lab simulation the computer first projects a random set of variables (weather, distance, suspected enemy strength, etc.) accord-



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ing to a mathematical model. When the commander makes his decision, the computer evaluates it and presents a new set of circumstances, says project head Carl V. Hagin.

The computer can thus carry a series of 200 to 500 decisions out to a logical conclusion in a matter of minutes. In the past, such an experiment would have been impossible because of the vast number of possible sequences.

In another series of experiments run by the ESD laboratory, the computer regulates the stimuli, such as auditory and visual information, according to the individual's response. Just how much and how fast information can be absorbed by an individual is readily determined. "Too much pertinent information," according to Dr. John R. Hayes, "is just as confusing as too little information and is useless in decision-making." Experiments like these supply information that can be applied in such areas as the designing of airplane instrument panels.

**Scientific vanguard.** The automatic laboratory is also in the vanguard of a much broader trend now going on in the behavioral sciences. Many psychologists, especially those dealing with military applications, feel that empirical measurements of human perception-response relationships are simply too specialized to be of much use. The Hanscom Field laboratory, instead, offers a more general approach. In its first program, it will take a mathematical model of "decision theory"—the same theory that monitors business games—and apply it to psychological decisions.

**Industrial applications.** Although the results of experiments conducted in the automatic laboratory will be immediately utilized in military applications, a wide number of industrial applications are likely to follow.

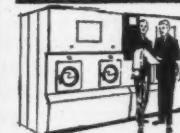
An important problem that will be probed in the automatic laboratory is the question of which decisions should be manmade and which machine-made. The answers to this question should have applications to business decisions. They may help an executive decide, for example, whether a computer evaluation of a situation is likely to be more dependable than that of an individual.

New theories should come out of the laboratory concerning complex stimuli, such as simultaneous auditory and visual signals. Because these experiments deal with stress, annoyance, and awareness, their results could be used to test consumer responses to advertising. **End**

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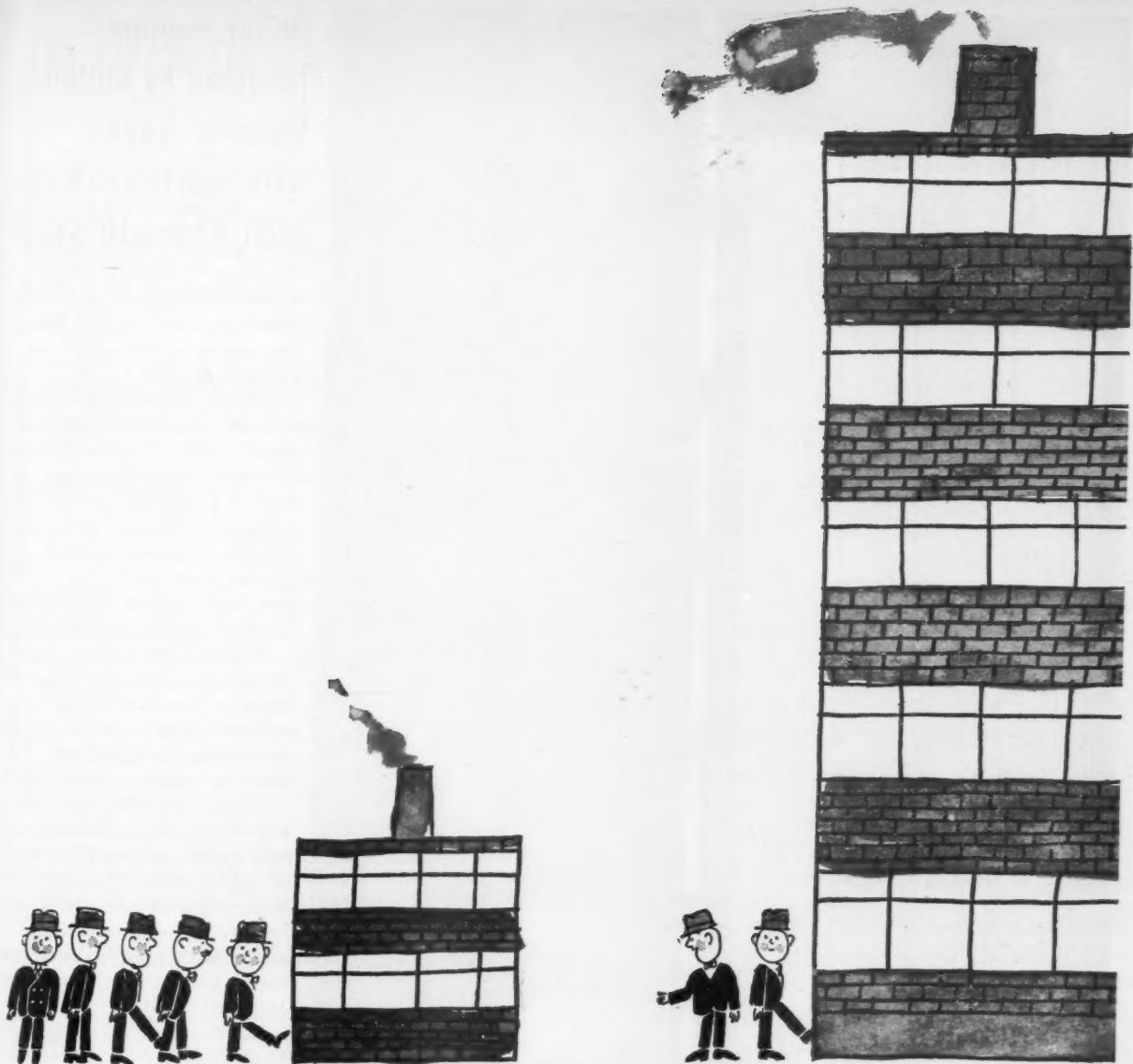
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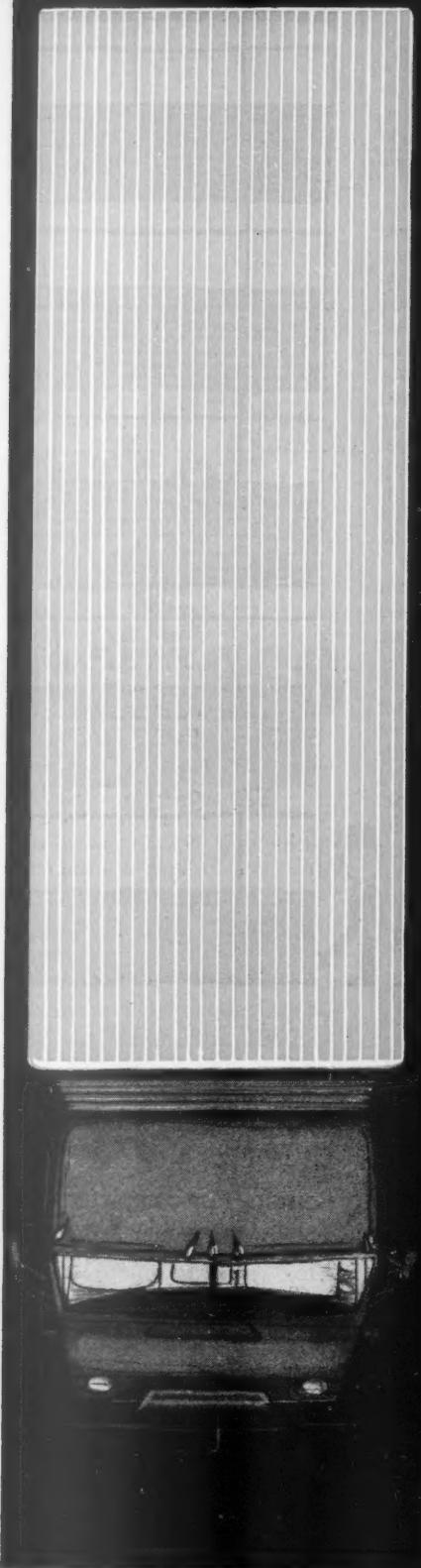
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# In business abroad

**BW**

## More news about business abroad:

**Page 118, Basic issues in the U. N.**

**Page 122, U. S. firm meets foreign challenge**

**Page 128, Economic outlook—Japan**

## Large and growing gasoline market

### in Britain attracts outsiders

Britain's gasoline market is attracting a lot of newcomers these days. For one thing, the market is large, about \$1.2-billion annually. For another, demand is increasing at the healthy rate of 8% annually.

Latest arrival is the Italian ENI group's marketing arm, Agip. It announced last week that it had set up a British subsidiary, Agip (Great Britain) Ltd., and that it will start retailing sometime next year. Ultimately, Agip hopes to take over 25% of the British market for gas, fuel oil, lubricants, and other products.

Other newcomers include Jet Petroleum, Ltd., a wholly owned subsidiary of Continental Oil Co., which has increased its retail outlets from 175 to 350 in the last year. Another, Total Products (GB) Ltd., subsidiary of Compagnie Francaise des Petroles, which now has about 70 retail outlets, aims to increase this number to 100 by yearend.

Meanwhile, there are rumors in London that two U. S. companies, Standard Oil Co. (Indiana) and Ohio Oil Co., also are eying the British market, though neither will make any comment.

## NATO unveils 'Atlantic' aircraft— its first all-European weapons system

Flight testing of the Breguet 115 anti-submarine-warfare "Atlantic" aircraft marks the first successful attempt by a group of NATO nations to develop jointly from scratch a completely new weapons system [BW Jul. 1 '61, p62]. Although the flight test took place late last month, details were held up until last week.

With French airplane manufacturer Breguet as prime contractor, the Atlantic was built by an airframe consortium of seven West European companies from Belgium, France, West Germany, and Holland. A special NATO steering committee coordinated all phases of the program. The four European countries involved jointly financed the program, while the U. S. and Canada fed their latest anti-submarine-warfare technology and equipment into the project.

Grumman Aircraft Engineering Corp. reportedly plans to bring the Atlantic prototype to the U. S. early next year for Navy evaluation tests. Grumman and Breguet are linked by a technical-industrial agreement signed last May.

Although there are no orders on the books yet, it's expected that the four NATO nations involved in the construction will order at least 200 planes. Further, NATO hopes that besides buying the Atlantic for the Navy, the U. S. will finance orders for other NATO countries like Greece and Turkey. Then, the Atlantic's consortium intends to push sales in countries such as Australia, New Zealand, and Japan.

## Russians give Italy \$50-million order to build six oil tankers

Moscow this week placed its largest ship order ever with a foreign shipyard.

A Russian company, Sudoimport, of Moscow, contracted with Italy's shipbuilding association, Fincantieri, for the construction of six 48,000-deadweight-ton oil tankers. They will be built at the Ansaldo Shipyards in Genoa. Italy's Fiat will supply the diesel engines for the tankers.

The first tanker is scheduled for delivery within 24 months, with one tanker to be delivered every three months thereafter. The Russians will pay \$50-million for the vessels.

In placing the order, Moscow is probably hedging against the future of the world tanker market. In its politically oriented oil offensive, Moscow thus far has been able to charter enough tankers. No one knows how difficult or expensive this has been. But if the world tanker market takes a turn for the better, as recent signs show, Moscow will find it increasingly difficult to charter. With its own ships, it would save money and avoid interruption in its oil offensive.

## Korea's strong man and business group pursue private capital in U. S.

Korea's new strong man, Gen. Chung Hee Park, and a team of 10 top Korean businessmen are in Washington this week trying to scare up private foreign investment—some \$300-million of it over the next five years.

Under its first Five-Year economic development plan, just getting under way, Korea is trying to get a five-year total of \$1-billion in foreign exchange. Of this, \$700-million would come from export sales, foreign aid, and loans. The remaining \$300-million will come from private investors, they hope.

Here's what they're counting on to attract U. S. investors to Korea:

- A new foreign investment law, which promises liberal tax incentives.
- Cheap and plentiful labor.
- An internal market of 25-million people and a potential external market of all free Asia for agricultural and mineral products.
- Natural resources such as large tungsten and other mineral reserves.



# Crises bring change in U.N.'s role

**The world organization, set up 16 years ago to resolve international disputes, seems more and more to be subsiding into the status of a world forum**

**Rarely have Americans** shown more interest than today in the handsome United Nations' buildings beside New York's East River, or in what goes on inside them. And perhaps never before has there been so much doubt, or at least so many questions, about the relationship of the U. S. to the U. N.

Within the past week, the U. N. has come through its most immediate crisis by naming U Thant, of Burma (picture), as Acting Secretary General. But the question of finding a successor to Dag Hammarskjold has been only one of the basic issues confronting the U. N. as it tries to define a new role for itself in international power politics.

The U. N. undoubtedly is experiencing a marked contraction in its capacity to smooth out international disputes. It is being relegated to the status of a world forum in which members express their opinions on world problems but find it difficult to do anything about them.

**Erosion sets in.** The U. N. was established 16 years ago with the intention that it would be both a deliberative assembly and an instrument of executive action. During the 1950s, it developed a limited capacity to act, first in conflicts such as Kashmir, then in Korea, later in the Middle East, and more recently in the Congo.

The U. N. reached its peak of active participation in international conflicts during the Secretary Generalship of Dag Hammarskjold. A process of erosion began last year after Nikita Khrushchev personally delivered a verbal barrage against the U. N. and many of its operations.

Since then, the U. N. has slipped little by little, so that it is now being confined more than ever to its deliberative functions. There are a number of reasons for this:

- The death of Hammarskjold and the election of an Acting Secretary General. Any new Secretary General must start from scratch to build a reputation and a concept of his office, which takes time. He will not be able to act forcefully until and unless he does.

- The faltering operation in the Congo. The U. N. has suffered military setbacks there, has lost the support of some African and Asian nations, and has disillusioned many Westerners, who feel that the U. N. has moved against the best interests of the West.

- Failure of many nations to heed U. N. injunctions. Russia ignored a U. N. resolution asking it not to set off the 50-megaton nuclear bomb; France ignored U. N. pleas to negotiate the Bizerte dispute; Indonesia refused to allow the U. N. help settle its conflict with the Netherlands over West New Guinea.

- Financial troubles, which is another form of failure of member nations to conform to the U. N. Charter. The Arab states have not contributed to U. N. costs in the Middle East; France, Belgium, and the Communists have not paid their assessments for the Congo; Nationalist China and several Latin American nations are in arrears on payments to the general U. N. budget. The U. N. will finish this year with a budget deficit estimated at \$35-million.

**Centers of power.** There are also

**U Thant**, of Burma, recently named Acting Secretary General, will serve remainder of Dag Hammarskjold's term.



Delegates applaud India's Prime Minister Nehru after his speech before the United Nations last week

structural weaknesses within the U.N. The organization's political role was conceived with the idea that the big powers would act in concert to maintain the peace. As power in the postwar world has polarized around the U.S. and the U.S.S.R., this has come to mean agreement between them. But these two have come more and more into conflict as the cold war has progressed and agreement on U.N. action has been less and less.

This showed up first in the Security Council, where the Soviet Union has used its veto freely. Now it is showing up in the General Assembly, where there is a tendency for the majority to say that any vote is meaningless unless the U.S. and the U.S.S.R. agree.

This informal veto will probably hamper the work of the new Secretary General. As an experienced member of the Secretariat staff points out: "The Secretary General can operate anywhere he wants to—so long as he doesn't step on Russian and American toes."

## I. World soundboard

With all its limitations, however, the U.N. performs useful political functions that neither the Communists, the West, nor the neutrals wish to see destroyed. It is a vital diplomatic channel and a workable piece of conference machinery. It is a sounding board for world opinion and a release point for trial balloons. In the meeting rooms, it is a forum for propaganda and persuasion; in the halls and lounges, it is an unpublicized rendezvous for

politicking, negotiation, and compromise.

To Frederick H. Boland of Ireland, president of the General Assembly last year, the U.N. is even more than that. "The Assembly of the United Nations mirrors the world as it is," he said last year. "It is in the assembly of the United Nations, more than in any other forum of the world that the intense political pressures and the great economic and social ferment which are slowly but inexorably molding the future destiny of mankind find their fullest, their clearest, and their most authoritative expression."

**Small nations speak.** The focus of attention in the U.N. today, however, is not on the cold war, which is the main concern of the U.S. and the U.S.S.R., but on the issues that appeal to the African and Asian nations. They now come close to holding the majority in the U.N., and the debates reflect their concern with colonialism, racial discrimination, and economic inequality.

Indian Prime Minister Nehru's speech last week is a good illustration of this. Nehru dwelt long on the Portuguese domination of Angola and on the Algerian war, but touched only lightly on the question of Berlin and Germany. Many members of the U.N. believe that cold war issues can be settled only by negotiation between the U.S. and the Soviet Union, that the smaller nations have little power to force settlement of these questions. Thus, the U.N. becomes an outlet for the less-powerful nations to express opinions on subjects of interest to them.

Despite the declining political influence of the U.N., and the declining power of the United States in the U.N. stemming from the increase in neutralist membership, Washington believes that the U.N. has a definite and positive place in the framework of U.S. foreign policy.

## II. Channel for power

In the weeks following Dag Hammarskjold's death, there was despair in many circles in Washington over the future of the United Nations. It seemed that the Soviets had been handed a beautiful opportunity to hamstring the executive powers of the Secretariat, that the Congo operation was down the drain, that the neutrals would not defend the integrity of the U.N.

The "curse on both your houses" attitude of many of the uncommitted delegations toward nuclear testing and disarmament also dismayed and angered Washington. And there was disillusionment over the reluctance of friendly and allied governments to back the U.N. with money.

**Doubts.** In this psychological climate, old irritations, doubts, grudges with respect to the U.S. bubbled to the surface not only within the Administration but in Congress and across the nation.

The President himself was vexed with the attitude of many neutrals on Berlin and nuclear testing, and this led him to feel some impatience toward the forum in which these attitudes were most strongly amplified.

**Calmer tone.** Now that the naming of an Acting Secretary General has calmed things down in the U.N., the



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fears within the Administration have subsided. As of now, no one in the Administration believes that the U.S. should put all of its foreign policy eggs in the U.N. basket, nor does anyone feel that the U.S. should reduce its support for the world organization.

There are differences in perspective. The "hard noses," such as Dean Acheson and McGeorge Bundy, Special Assistant to the President, feel more closely identified with the Europeans and more impatient with the vagaries of the Afro-Asians than do people such as Under Secy. of State Chester Bowles or Asst. Secy. of State G. Mennen Williams, whose responsibilities make them more sensitive to the views of the uncommitted nations. Adlai Stevenson, U.S. Ambassador to the U.N., probably tends to lean toward the latter school, partly because his job forces him to.

In between stand Harlan Cleveland, Assistant Secretary of State for International Organizations, and the President. They see the U.N. as an instrument of and a channel for the power of the U.S., although not by any means the only or even the most important channel. The President, in particular, has no starry-eyed enthusiasm for the world organization as such. But he recognizes the importance of U.N. parliamentary diplomacy as one of the tools of U.S. foreign policy.

**Delicate issues.** In the political sphere, many Washington officials think that the military stalemate between East and West means that many conflicts, such as the Congo, are likely to arise in which the vital interests of the two great powers are not at stake. Neither great power wishes to get engaged militarily in these disputes for fear of becoming trapped in a local political bog.

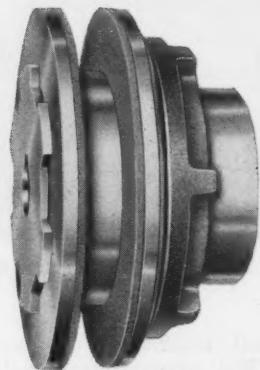
The only alternative they see to big power intervention in such situations is U.N. intervention.

**Special jobs.** There is an area in which the United Nations has acted effectively to help create the kind of world in which the Western system of values can survive. The specialized agencies of the U.N. have done some good work—virtually without Soviet participation—in the field of social, economic, and cultural development.

These agencies, to all intents and purposes, are controlled and financed by Washington, and are engaged along with other international and regional bodies and U.S. agencies in serving U.S. purposes around the world. They are useful supplements to U.S. programs in these fields. **End**



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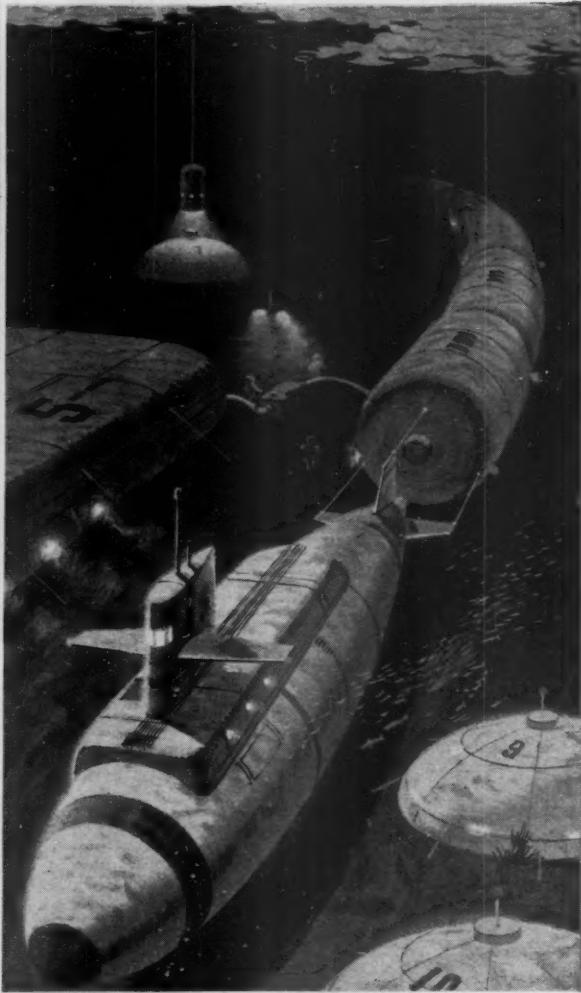


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# High road or low road . . . fabrics figure as key structural material



*On the drawing board:* orbiting space stations (top) fold to fit in rocket nose cone, inflate with gas. Astronauts are protected by space suits of special coated fabrics.



*In the development stage:* fabric fuel tanks (left) can be anchored or towed by submarine for underseas storage. Right: fabric pressurized hemispheres for on-the-bottom mining.

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# Turning tables on foreign competition

**Lawson Co., its exports of paper cutting machines gone and home market invaded, fights back by Canadian team-up that cuts its prices, puts it back in competition**

**Business abroad** was once lucrative and important for the Lawson Co., a former New York manufacturer of paper cutting machines. Lawson in 1948 sold 20% of its output outside the U.S. and Canada. It claimed about half the total overseas market. On its approximately \$1-million of overseas business, profit margins were high.

Then, within the brief span of four years, it was all over. That part of Lawson's production sold abroad plunged to only 3%. By 1957, Lawson was entirely out of the overseas and Canadian markets.

That year, Lawson was purchased by Miehle-Goss-Dexter, Inc., a Chicago printing products company, and became a wholly owned subsidiary of M-G-D.

**Domestic invasion.** Equally serious, Lawson's chief antagonist—the reborn West German machinery industry—invaded the U.S. and made sizable inroads into Lawson's own back yard.

Prior to World War II, U.S. producers had this market almost exclusively to themselves. Today, Lawson estimates, West German and a few other foreign manufacturers sell 40% to 50% of all the paper cutting machines in the standard 35-in. to 60-in. range that are sold in the U.S.

**Counterattack.** Last week, Lawson, now a division of Miehle-Goss-Dexter, launched a counterattack.

At the 75th Graphic Arts Exhibit and Conference in Milwaukee, it unveiled a new line of machines with which it expects to arrest foreign penetration of the domestic market, and to reenter foreign and Canadian markets in which it hasn't sold a cutting machine in five years.

Pres. E. M. Abrams of M-G-D's Lawson Co. Div. (picture, page 124) crossed the border to Canada to put his company back into a competitive position.

**Push that faltered.** Before that, though, he had already tried com-

peting with the Germans by contracting with a West German producer, Vereinigte Drehbank-Fabriken (VDF), to make machines for Lawson, apparently without success.

Because they were made to Lawson specifications incorporating certain safety and other special features, the West German machines still were about \$1,000 above their competition. "Foreign-made machines are bought strictly on price," says Abrams, "and we had a reputation for quality, dependability, safety, and accuracy to preserve."

Profit margins on Lawson's own production for the U.S. market were depressed so that it could maintain some semblance of competition, Abrams says. This naturally argued against any lower price on its imported machines.

But even with profit margins trimmed on Lawson cutters, says Abrams, "a West German competitor could ship a comparable machine to Mexico City, set it up on the plant floor, pay the freight and duty, and still be 50% below our f.o.b. factory price."

**Canada contact.** Canada entered Abrams' plans in ironic fashion. Representatives of VDF, Lawson's West German ally, attending the U.S. machine tool show in Chicago in September, 1960, brought Abrams into contact with the R. McDougall Co., of Galt, Ontario.

McDougall, which was consolidated with Upton, Bradeen, & James Ltd. in 1957—the same year Miehle-Goss-Dexter acquired Lawson—imports lathe components from VDF and sells the lathes under the McDougall-VDF name.

McDougall men, touring Lawson's Chicago production facilities, told Abrams they made castings at Galt. This answered a need for Abrams, who was beset with pricing problems, and had even considered buying castings from India and Japan to lower costs.

But McDougall had more than



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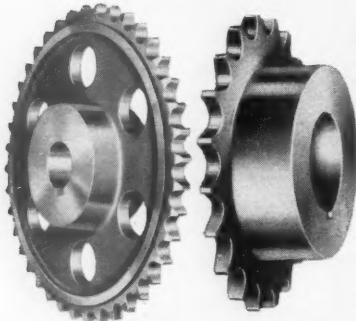
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**Pres. E. M. Abrams** says Lawson now can regain lost overseas markets.

castings to offer, and a production contract was signed in October, 1960, under which the Canadian company, beginning this month, assembles about 85% of Lawson machinery.

**Interested.** A tie-up with McDougall interested Abrams for several reasons. Canada is part of the Commonwealth, which is a big market for paper cutting machines because of its high literacy rate; and Lawson hadn't sold a cutting machine in Canada in five years. Affiliation with a Canadian company would help sales of those and other Lawson products including book trimmers and paper drilling machines—and possibly also help M-G-D products.

McDougall's plant was small, overhead low, and a production line could be set up easily. The company had long experience in the machine tool business and had demonstrated ingenuity and ability in making special machinery. Galt, the site of its plant, had a plentiful supply of skilled labor, foundries for castings, and good shipping facilities. And Abrams felt a "certain compatibility with our North American neighbors." Cost of developing the new line—including draftsmen's salaries and patterns, jigs and fixtures, and tooling—was only half as much as it would have been in the U.S.

Labor costs in Galt are approximately 60% of those in Chicago, according to Lawson's engineering staff. Castings bought at the Canadian site run about 40% less than in the U.S.

In addition, Lawson has achieved closer control of costs in Galt than it had in Chicago, where paper cut-

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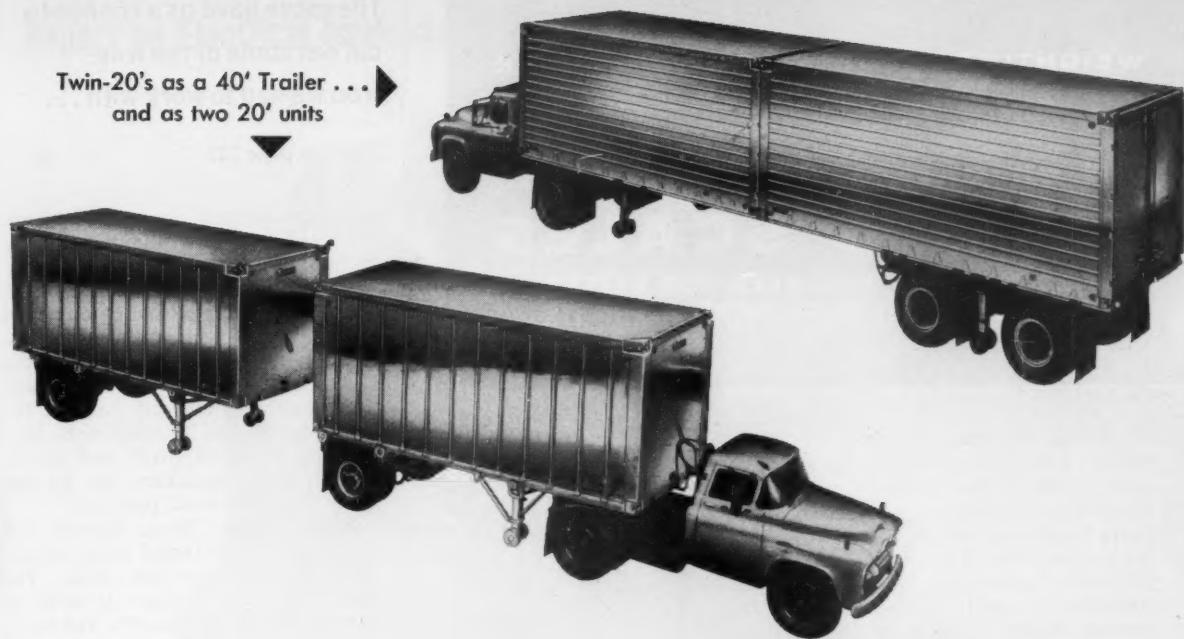
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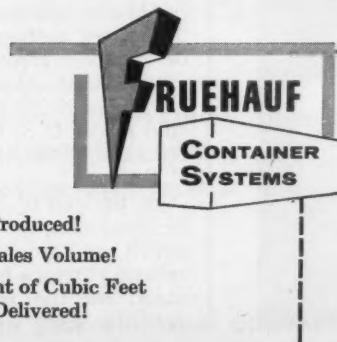


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The move gave us a chance to  
cut out some of the frou-  
frou we had to work with . . .

Story on page 122

ting machine production had to co-exist in the same plant as other M-G-D production.

"In Canada, we've been able to gear the plant to manufacture of the machine, whereas in Chicago we had to gear production to the plant," Abrams says. "The move gave us a chance to cut out some of the frou-frou we had to work with in a printing products plant and to design special machinery for an entirely re-engineered product."

**Prices down.** These factors will mean across-the-board price reductions averaging about 20%. The prices take into account a tariff on imports to the U.S.—it's relatively small for Lawson because all parts, with the exception of castings, are U.S.-made.

And with North American prices down, Abrams says his company now can reduce prices on equipment imported from its West German associate, VDF.

An average paper cutter runs between \$15,000 and \$20,000, says Abrams. By moving its production to Canada, Lawson will lower the price on its 52-in. electronic spacer cutter to \$15,175 from \$19,350. A similar West German machine sells for \$15,000 to \$16,500 in the U.S., but Abrams says it isn't comparable to the Lawson machine in weight or production capability.

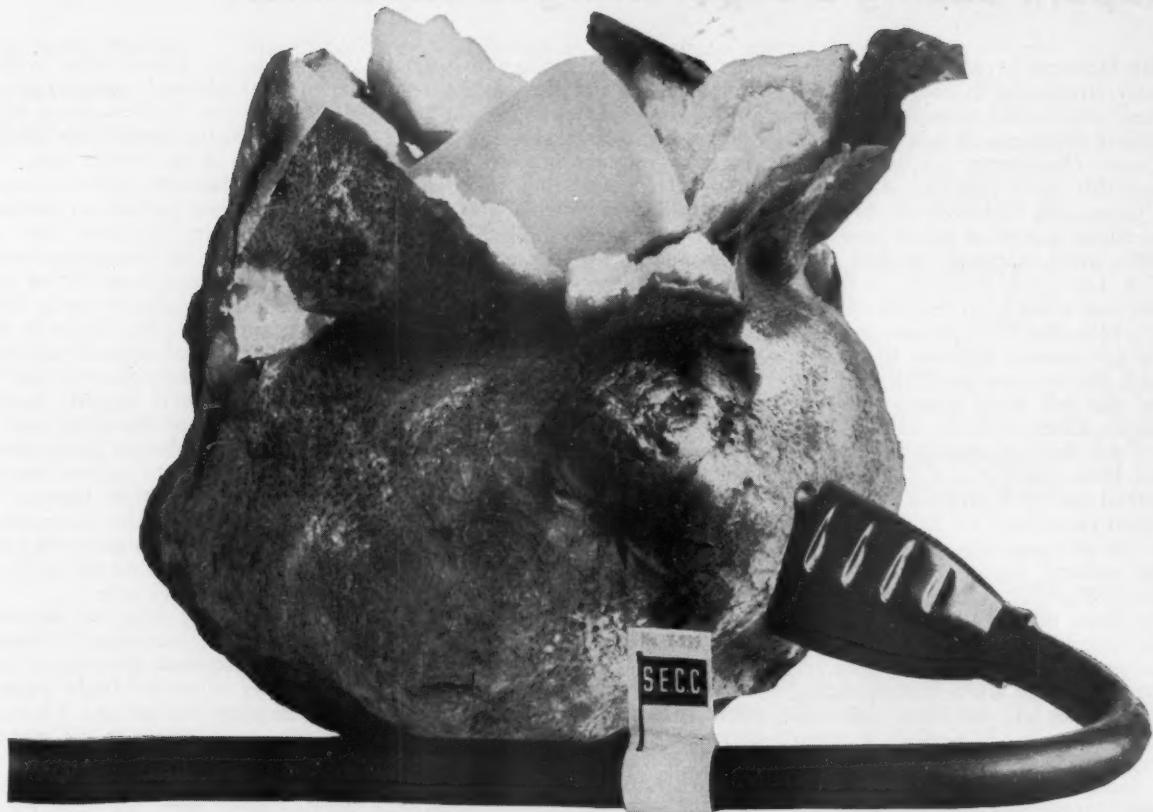
In Canada, Abrams expects the Lawson cutter to sell for about \$750 under competitive machines from West Germany.

**Fighting position.** Abrams doesn't expect to drive his foreign competitors out of business, but he expects that by closing the \$4,000-to-\$5,000 price gap that has existed, Lawson again can compete in worldwide markets. "At least we're in a position to fight now," he says.

Abrams estimates that more than 500 paper cutting machines—some of them not comparable to Lawson cutters—are exported per year from Europe, and 250 to 300 of them are sold in the U.S. His first goal is to reduce the volume of imports to the U.S.

By the end of 1962, he expects to be producing for overseas markets, which are growing rapidly as increasing literacy brings a greater demand for the many graphic arts products. **End**

## Report on Electrical Modernization (FOURTH IN A SERIES)



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## Japan: Easing a supercharged expansion

**The Japanese government** is assiduously attempting to cool off the nation's overheated economy without stalling the engine. It has introduced a series of austerity measures to reduce this year's rapid expansion.

Japan has enjoyed phenomenal economic growth in recent years. In 1959, gross national product rose 17%. Last year, it was up 11% and this year it has been surging upward at a 12% clip. With its new policies, the government believes it can cut back the increase in GNP to 9.7% for the full fiscal year ending in March, 1962.

Total fixed investment this year has been running at a \$11.2-billion annual rate, well over the \$10-billion a year envisioned for 10 years hence in the government's plan to double the national income by 1970 [BW Jun. 17 '61, p131]. Consumption, too, has been relatively spectacular for the usually frugal Japanese people. Personal expenditures this year have run 9% to 12% above corresponding quarters for last year. This high consumer spending is a result of rising wages and employment.

Such high levels of consumption and investment, however, have threatened the Japanese with a severe balance-of-payments deficit and the possibility of domestic inflation.

**Push on imports.** When the Japanese economy is expanding rapidly, imports rise roughly in proportion. Japan lacks most of the raw mate-

rials on which a modern industrial complex feeds and must obtain them abroad. In 1959, Japan bought \$3.6-billion worth of foreign goods and last year imports jumped to \$4.5-billion. This year, they are headed for \$5-billion, of which almost \$2-billion will come from the U.S.

Since early this year, exports have not risen nearly so fast as imports, which hit a postwar monthly high of \$607.9-million in September. Exports have been sluggish, partly because of the slow recovery of the U.S. economy, Japan's largest single market, and partly because the increase in purchasing power at home has made selling there more attractive to Japanese merchants.

Thus, Japanese economic officials expect an \$880-million trade deficit by the end of the fiscal year. Some of this will be covered by a net inflow of capital totaling \$350-million, leaving a balance-of-payments deficit of \$530-million.

Foreign exchange reserves, now about \$1.6-billion, will fall to \$1.4-billion by March from a peak of \$2-billion last April. Japan is better able to absorb this drop than during the 1957 payments crisis, when reserves dropped below \$500-million. Japanese officials hope to see a turnaround and a payments surplus by the end of 1962.

**Consumer segment.** So far, the threat of inflation coming from the investment and consumer booms has been confined mostly to the consumer segment of the economy. The retail price and cost-of-living indexes are up. But wholesale prices of consumer and producer goods have held steady, although signs of an upward creep are beginning to appear.

For political reasons, the Japanese government has not tightened up on personal consumption but has moved in on investment, reasoning that a slowdown there will keep the rise in employment and wages within bounds.

The central bank has increased its discount rate twice in the last six months. It is now 7.3%. It has also increased reserve deposit requirements for commercial banks. Further, the government has asked banks to cut their loans to industry for investment by 10%. (Banks are a major source of investment capital in Japan.)

The tight money policy is beginning to take effect. The 150 largest

companies in Japan have scaled down their planned investment for this fiscal year by 8%—from \$3.1-billion to \$2.9-billion. This should lessen some of the import flow.

**Importer deposits.** Other moves to level off imports include an increase in the deposits importers are required to make at foreign exchange banks. They range from 5% for raw materials and machinery up to 35% for luxury goods. But Japan is not trying to roll back imports and has allotted enough foreign exchange for a small increase in imports during the second half of this fiscal year.

The Japanese also are going ahead with the program to remove restrictions from 90% of their imports by October, 1962. But the government may be less liberal in permitting imports from nations that discriminate against Japanese exports.

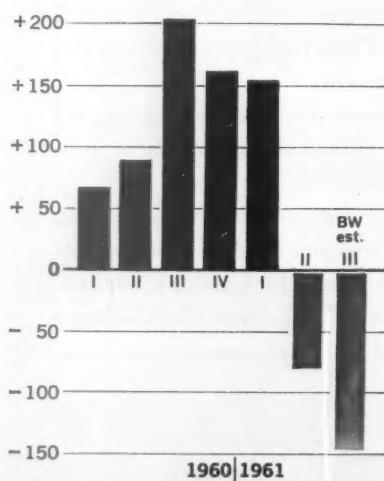
On the export side, the recovery in the U.S. is increasing Japanese sales. The Japanese government has started an extensive trade promotion campaign abroad, and it is making strenuous efforts to get restrictions on Japanese products lifted. At home, the government has encouraged exports with tax cuts, better financing and credit terms, and a reduction in export insurance costs.

Also helping to reduce the payments deficit is an increase in foreign investment, both direct and portfolio. During the first half of this fiscal year, \$248-million flowed in, more than twice the amount in the corresponding period last year.

Of the \$1.2-billion of foreign investment in Japan today, the U.S. accounts for \$604-million.

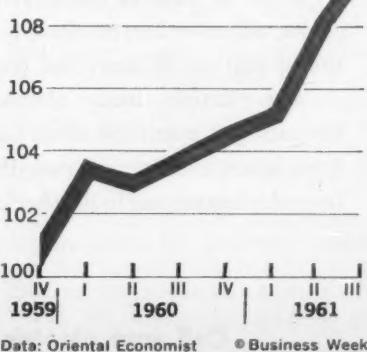
### Balance of payments

Millions of dollars



### Tokyo Cost of Living Index

1959 = 100



# International outlook BW

November 18, 1961

## Payments deficit moves up to \$3-billion rate

The disturbing trend in the U.S. balance of payments came into sharper focus this week with the Commerce Dept.'s release of preliminary data for the third quarter.

The figures show the over-all deficit in the quarter running at an annual rate of \$3-billion. That compares with \$1.4-billion in the first quarter and \$1.9-billion in the second—excluding in the latter case \$650-million in special debt prepayments.

The main cause of the rising deficit is a decline in our trade surplus. The surplus of exports over imports (at annual rates) dropped in the third quarter to \$4.2-billion—from \$5.4-billion in the second and \$6.7-billion in the first.

There's no real crisis yet, despite these depressing figures. Confidence in the dollar is holding up pretty well so far. The gold drain was only \$145-million in the third quarter, roughly offsetting the rise in our gold stocks in June.

Things may look up a bit, too, in this quarter. Imports jumped more sharply in July than during the third quarter as a whole. That was due to the shipping strike in June and an inventory buildup in the wake of unusually low imports during the spring. Moreover, foreign investors who pulled money out of the New York stock market during the summer are likely to put some of it back again as business conditions here improve.

Also note that exports are holding up pretty well. The \$19.7-billion annual rate for the third quarter was \$700-million higher than the export rate of the previous quarter, though still below the level of the first.

Even if you use the Administration's new "basic deficit" approach, the red ink for the year won't be alarming, according to present projections—perhaps \$2.3-billion. If you include the special debt prepayments—these don't count in the "basic deficit"—this year's red ink would be around \$1.7-billion, or less than half the peak levels of recent years.

## Real crisis could come in the spring

Real pressure on the dollar could come by next spring, or even earlier. By spring, the business cycles here and in Western Europe probably will be in their most unfavorable phase from the angle of the U.S. balance of payments. Recovery here is likely to be going full blast by then, the leveling off of European business activity fairly general. That will tend to suck in imports, put a damper on exports. So, in the second quarter of 1962, the U.S. deficit might hit an annual rate of \$4-billion—a figure that could cause alarm.

A booming economy in the U.S., however, would provide a psychological offset to this swing in our trade balance, and could well prevent a run on the dollar. Whether a crisis of confidence then develops, according to most U.S. officials, will depend on three things:

- The effectiveness of the international defenses for the dollar now being built by the Administration [BW Nov. 11 '61, p29].
- How much inflation, if any, there is in the U.S. as the business recovery continues.
- The success the Administration has in balancing its budget from now

## International outlook **Continued**

on. Continued budget deficits here would be more likely to shake confidence abroad than anything else.

### **New strategy for the Allies— embargo Russia**

A new tactic in dealing with the Russians—and one that might carry weight in Moscow—came to light this week. In a report to the Joint Economic Committee of Congress, international lawyer Samuel Pisar urges the U.S. and its allies to plan a coordinated economic embargo on the Soviet bloc. Pisar has served as an adviser to the Kennedy Administration. His report is said to have the backing of the Administration.

The problem is to get our European Allies to go along with the U.S. West Europe sells the Russians nearly \$2-billion a year in capital equipment and technology. U.S. trade is insignificant.

For Pres. Kennedy to win Allied cooperation, the Pisar report says, the U.S. would have to offer major inducements, such as liberal trade policies toward West European nations and special assistance to countries directly affected. Congress, too, would have to give Kennedy a free hand in working out a common East-West trade policy with other Western nations.

### **Kennedy holds Ghana decision for two months**

Kennedy will keep Pres. Nkrumah of Ghana waiting for another two months before deciding whether the U.S. should help build the Volta Dam. Clarence Randall, the President's special emissary to Ghana, has reported favorably on the economics of the Volta project, unfavorably on Nkrumah's political policies at home and abroad, skeptically about Nkrumah's political future.

Prime Minister Macmillan of Britain has agreed to go along with a stalling operation pending new political developments. Both British and American observers in Ghana believe that Nkrumah may face a violent showdown with his increasingly powerful opposition in the wake of Queen Elizabeth's visit. A showdown between now and the first of the year seems almost certain.

Given that prospect, neither Washington nor London want to give the appearance of backing Nkrumah by promising help on the Volta project. If he is toppled from power, relations with a new government might then be cool. If, on the other hand, Nkrumah comes out on top, little would be lost by a further delay.

### **Administration in Brazil fights inflation**

Brazil's new administration, headed by Pres. Joao Goulart, has staked its life on its ability to stanch inflation.

In the wake of ex-Pres. Janio Quadros' resignation [BW Sep. 2'61, p22], Goulart and Prime Minister Tancredo Neves had hoped to ride out the political and economic storms by coasting along on the course Quadros had charted. But this timidity has caused a loss of public confidence and forced the administration to speak up.

This week, Neves told the Brazilian Congress that a request for new taxes would be the first in a series of deflationary measures that the government will propose. Others will be credit curbs, an overhaul of banking laws, and measures to close tax loopholes.

The Prime Minister promised no retreat to the multiple foreign exchange system, which was juked by Quadros. He also indicated that drastic cuts in development spending were unlikely and that future wage increases must be geared to productivity.

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**More news about labor:****Page 138, Important test for profit-sharing****Page 141, Sea unions reach overseas****White House names six economists  
to study method of counting jobless**

The much-criticized federal system for counting the unemployed will get a full review from a Presidential team of six professional economists. The study ordered by Pres. Kennedy last week may be aimed as much at stalling the critics as at changing rules that the Administration believes are sound.

Government specialists, including Labor Secy. Arthur J. Goldberg, are disturbed at the persistent high level of unemployed—seasonally adjusted to 6.8% in October to continue the high rate through the year. This rate has held despite the current economic recovery.

Critics from both sides are protesting the counting method. Some argue against counting as unemployed students seeking to enter the labor market and housewives seeking a second family income. Others, particularly in union circles, contend that the actual jobless count should be higher to reflect the job-loss of involuntary part-time workers counted as employed.

Asking for a review of the "procedures . . . concepts . . . and analysis" of the current jobless survey, the President named as special study committee members: Prof. Robert Aaron Gordon of the University of California, chairman; Robert Dorfman of Harvard, Albert E. Ross of Chicago, and Frederick F. Stephan of Princeton; AFL-CIO economist Stanley Ruttenberg, and Martin R. Gainsbrugh of the National Industrial Conference Board.

**NLRB moves to ban unfair practices  
aimed at stopping union organization**

The "new" National Labor Relations Board has moved to stiffen legal prohibitions against unfair labor practices intended to prevent union organization. Its regional office in Winston-Salem, N. C., has asked for an injunction ordering the West Point Mfg. Co. (Anderson Div.) to reinstate three workers allegedly fired during a Textile Workers Union of America organizing campaign although no election has been held yet at the Anderson (S.C.) plant.

In the past, NLRB acted on such unfair labor practices only after they had invalidated an election. Critics—including NLRB Chmn. Frank McCulloch—have held that this delay defeats the Taft-Hartley Act's purpose. They contend that unfair labor practices must be stopped before the election if employees are to feel free to vote for or against the union on its merits; an em-

ployer who is penalized afterward simply pays a "license fee for union-busting," McCulloch claims.

A court hearing on the injunction petition is set for Nov. 29. If the order is denied, NLRB undoubtedly will appeal, to force a legal determination of the courts' obligation to implement the new board policy. The result could have a substantial effect on union organizing prospects, especially in the South.

**Urged by parent UAW, Yale & Towne local  
breaks union front, accepts contract**

Acting on the advice of its parent union, a local of the United Auto Workers in Chicago last week ignored a newly made agreement with another union and signed a three-year contract with the Yale & Towne Mfg. Co., providing pattern 2½% or minimum 6¢-an-hour raises, liberalized pensions, and other benefits.

A striking local of the International Assn. of Machinists in Philadelphia had asked the UAW local to support its walkout by refusing to sign any contract while IAM's strike remained unsettled [BW Nov. 4 '61, p143]. The auto workers' local at first agreed to do this.

Aroused international officers objected on grounds that UAW negotiators should bargain with Yale & Towne for a fair settlement—not get involved in what are local issues in the IAM stoppage in Philadelphia. The 650-member UAW local then scrapped the compact with IAM and accepted terms similar to those being agreed on widely in UAW negotiations nationally.

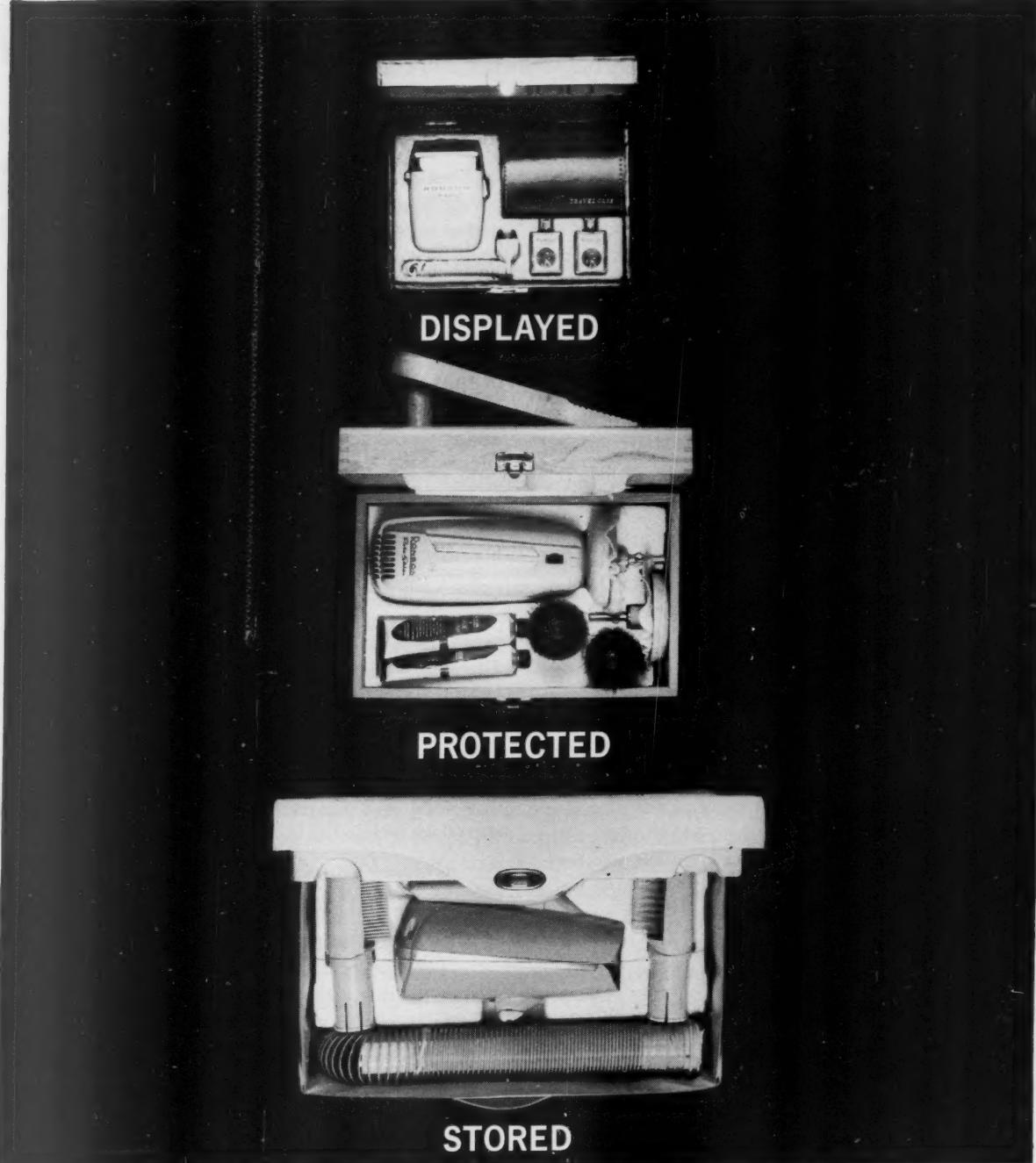
**Reuther urges 'non-aggression' principle  
to check interunion raiding**

Walter Reuther, president of the AFL-CIO's Industrial Union Dept., this week urged a "principle of non-aggression" for the federation's craft and industrial unions to stem their interunion warfare. Reuther, in a report to IUD's national convention in Washington, noted that the six-year-old AFL-CIO merger had failed to solve interunion rivalries. "Jurisdictional conflict persists, AFL-CIO unions still boycott the products of other AFL-CIO unions, affiliates raid each other . . .," he said. AFL-CIO is "united in name only," he added.

He also charged the AFL-CIO's building trades unions with seeking to take over jobs at the nation's missile bases that rightfully belong "under past practices" to industrial unions. Reuther demanded "early solutions" at the AFL-CIO convention next month.

Reuther's warning that the jurisdictional conflicts were increasing in intensity was made to some 500 delegates from 59 unions.

C. J. Haggerty, president of the rival Building & Construction Trades Dept., countered with a charge that IUD is "ignoring and openly transgressing" a 1958 peace plan. He said Reuther "apparently thinks his best defense is an all-out offense."



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## Important test for profit-sharing



"See we're up one-eighth on the Big Board"

**The first profit-sharing plan** in the auto industry is now in effect in American Motors Corp. plants—but even its authors aren't really sure yet just what collective bargaining history they have written.

Officially, they carefully refer to what has been negotiated between American Motors and the United Auto Workers for AMC's 23,000 workers as "progress-sharing" instead of profit-sharing. But whatever they call it, they are fully convinced the plan has potential good in it for workers, management, and consumers, and is a valuable new approach to contract-making.

Last Aug. 30, just after the plan was announced, AMC Pres. George W. Romney and UAW Pres. Walter P. Reuther met in Detroit's Sheraton-Cadillac Hotel. Romney, annoyed at press charges that he was "selling out to the union," commented to Reuther: "Seven years from now people will begin to see that this was a fundamental step forward in collective bargaining."

"That's right," Reuther said. "Ten years from now people will come to see just how significant this agreement was."

**Special situation.** Just how historic the agreement is will be known only after the testing of time. This much is certain now: The agreement that AMC and UAW reached probably would not have been feasible at all for management and the union in other auto bargaining situations. AMC's progress-sharing plan arose out of certain basic problems that needed correcting, and it presupposed continuing gains for the company.

AMC realized that some new incentive had to be devised for workers to end years of excessively costly and wasteful work practices and conditions; the incentive is the prospect of more cents an hour and shares of AMC common stock as AMC makes further progress.

And UAW was, of course, interested in getting from AMC a quick agreement that would undermine the tough bargaining positions of General Motors and Ford. UAW also has been worried over the possibility of a

GM and Ford monopoly in the industry, someday. Its leaders saw in AMC progress-sharing a way to strengthen one of the smaller auto companies with no real sacrifice by the union.

**Gamble.** The agreement reached between AMC and UAW is in many ways a gamble for both. AMC stands to make gains in employee morale and cooperation; these could lead to cost savings that will enhance the company's competitive position and profits. UAW hopes that the AMC workers' gains over the next three years will be enough to turn what is now doubtful support into enthusiastic acceptance.

But unless there are profits—and substantial gains for the workers—there is a possibility of trouble. The progress-sharing plan could mean loss-sharing, too. AMC workers might be called on to give up a few pennies of annual raises to meet higher fringe costs if these can't be met from the progress-sharing fund.

Many AMC plant workers found this prospect hard to accept. However, UAW is confident that AMC's profits will not fall below \$50-million during the term of the present contract—and that the workers' pay boosts won't be touched.

Along with many other managements, particularly smaller ones, American Motors found it necessary to write above-pattern extras into union contracts when the labor market was tight and uninterrupted production seemed more important than additional costs. When costs became vital again in a competitive sales market, AMC felt a serious cost-price pinch.

**AMC plan.** Back in October, 1954, when AMC was facing grave problems of survival, Romney—AMC's new president—told company directors that some system of progress-sharing offered a hope for saving AMC. He tried to get UAW to accept progress-sharing in some form in 1955 and 1958. Proposals were laughed off both years; you don't suggest anything like profit-sharing unless there are profits to be shared, the union said.

This year, with a record of progress—and profits—behind it, AMC introduced the proposal again. UAW took a different position. A plan was hastily worked out.

**Cost-saving.** The AMC contract has permitted reworking of local agreements to "eliminate excessive paid-time-not-worked provisions, revise seniority clauses to increase effective utilization of manpower, and establish a sound basis for production standards." These provisions could cut costs by millions of dollars.

For instance, one clause specifically reduces by five min. the daily paid wash-up time for AMC's 23,000 production workers.

**Management rights.** Other provisions are expected to bring similar savings in costs or increases in productivity. And, above all, AMC has won—or it hopes it has won—an intangible, a strong interest in producing more and watching waste and unnecessary costs.

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# Sea unions reach overseas for members

**Seafarers International Union has chartered affiliates in Latin America, and National Maritime Union is considering similar move. Aim is to organize foreign-flag ships**

**It has become** commonplace in recent years for American corporations to expand abroad. Now two unions are following suit.

The two are the Seafarers International Union and the National Maritime Union. The SIU recently issued a charter to the 6,000-member Seafarers & Waterfront Workers Trade Union of Trinidad, bringing to 13,000 its Caribbean membership. The NMU announced it is considering requests for direct affiliation from four unions with a total membership of 18,000 in Panama, Honduras, and the Netherlands Antilles.

AFL-CIO policy generally disapproves the chartering of foreign affiliates as a kind of international "raiding." When the International Longshoremen's Assn. chartered a union in the Dominican Republic last year, AFL-CIO made ILA withdraw the charter. But nothing of the sort is expected to happen in the case of the sea unions. If AFL-CIO Pres. George Meany says anything at all, it's likely to be along the lines of "Bless you, my children."

Nor is it inconceivable that the operation will receive the tacit approval of the State Dept.

**Foreign-flag problem.** The sea unions' Latin American activities—and the AFL-CIO's position on them—grow out of a very special situation. Ever since World War II, American shipowners have been transferring their vessels to foreign flags—principally those of Panama, Honduras, and Liberia—and manning them with foreign seamen, mainly from South and Central America. The cost advantage is twofold: lower taxes and lower wages.

The Maritime Administration lists 530 foreign-flag ships under the "effective control" of U.S. interests, compared to 900 in the U.S. merchant marine. SIU and NMU have lost thousands of jobs to the foreign-flag ships, and their hold on the remaining jobs is precarious. At best, wages and working conditions are

boxed in. When a shipowners' group offered a substantial raise to settle the June maritime strike, SIU Pres. Paul Hall attacked the offer as a plot by subsidized shipowners to ruin unsubsidized owners, who couldn't possibly compete with the foreign-flag ships if their labor costs went any higher.

The sea unions have attempted to organize foreign-flag ships for years. They found it uphill work, since they had no legal protection.

**Big break.** Then early this year, the National Labor Relations Board issued the first of a series of rulings asserting jurisdiction over foreign-flag ships. If a vessel is owned by U.S. interests and does its main business with U.S. ports, it is covered by U.S. labor law no matter what flag it flies or what nationals it employs, NLRB said. The union may petition for an election and the employer must bargain with it if it wins.

The links with Latin American unions are part of the surge of activity that followed.

SIU (which has had a Puerto Rican division—now numbering 5,000—for many years) chartered the 1,700-member Virgin Islands Labor Union in July and followed it up with the Trinidad charter last month. At present, a special "international representative for the Caribbean and Latin America" is conferring with union officials in other countries.

NMU—all of whose present membership is in the U.S.—met in Kingston, Jamaica, with representatives of nine unions from Jamaica, Trinidad, Netherlands Antilles, Panama, Honduras, and Nicaragua. Four asked for affiliation, others indicated interest in continued contact. NMU is also quietly exploring the situation elsewhere.

**Advantages.** Both unions emphasize that they seek closer cooperation with Latin American unions whether by direct affiliation or a less formal relationship. They're apt to



**SIU charter** is given by Jose Perez to George Munroe of Trinidad affiliate.

get it since it provides advantages all around.

For the Latin American unions, cooperation means the help of well-heeled allies; both SIU and NMU make no bones about the fact that they expect to spend more money than they'll get back.

For the U.S. unions, it means that the foreign-flag shipowner is less likely to find a "weak sister" when he finally concludes he must deal with a union. SIU and NMU are determined to make as many unions as possible strong enough to narrow the gap between U.S. and foreign-flag rates. They also feel that cooperative organizing campaigns will have a better chance of success.

**Other effects.** In the process, some shoreside workers may find their bargaining position strengthened. SIU's 6,000 new Trinidad members include some bauxite workers. Fully 15,000 of the 18,000 now being considered for NMU affiliation are longshoremen or oil workers—most of them employed by companies that also operate cargo ships or tankers. If these workers are able to make gains, it will undoubtedly affect the bargaining demands of other unions in the field.

It's the effect on other unions that will probably persuade Meany to overlook the breach of AFL-CIO policy. The unions strengthened in each case are anti-Communist unions, competing with Communist unions for the loyalty of Latin American workers. The Dominican Republic union that received an ILA charter briefly was an arm of the Trujillo dictatorship.

Enabling a democratic union to become a stable element in the economic and political life of a Latin American country may strike the State Dept. as worthwhile. **End**

## Administration spokesmen tell their story to the people and find that they also have to do some listening



**DENVER:** Interior Secy. Stewart Udall explains principles behind Administration's policies on conservation and public resources. Audience came from a 12-state area.



**ST. LOUIS:** Secy. Abraham Ribicoff of Health-Education-Welfare and Commerce Secy. Luther Hodges listen to hot question from floor on plan for health care for the aged.



**MADISON, WIS.:** Agriculture Secy. Orville Freeman greets conference attendees. Freeman's speech stressed need for new farm program to solve agricultural problems.



**CHICAGO:** Housing chief Robert C. Weaver talks to members of audience. Weaver touted this year's housing law as one of Administration's "proudest achievements."

# Kennedy team takes to the road

**Top Washington officials join in campaign to stir up public enthusiasm for Administration's domestic programs before the coming Congressional session**

**The Kennedy Administration's** autumn campaign to whip up support for New Frontier legislation hit a peak this week as 40 or more Cabinet members and top officials took to the road for a series of conferences in 12 cities.

Billed as a nonpartisan report to the people, these "White House Regional Conferences" cap the Administration's effort to stir up some enthusiasm for medical aid to the aged, retraining for the unemployed, tax reform, urban assistance, and other programs neglected by Congress.

Since Congress adjourned, the President and his aides have been taking their story to the country. The President has held a series of luncheons with editors from all areas. Cabinet members went to Hot Springs, Va., to smooth over relations with members of business [BW Oct. 26 '61, p.34].

On Monday night, Atty. Gen. Robert Kennedy spoke to the Economic Club of New York to try to overcome the "anti-business" tag given the Administration. He asserted that effective antitrust action promotes "competitive interests of business, small and large." This week, the President is making a four-stop political swing through California, Washington, and Arizona.

These forays were prompted in part by published criticism that the Kennedy Administration—despite its high percentage of professors, writers, and other professionals—is failing to get its message across.

**Two-way street.** The 12-city tour was supposed to be a two-way street. Its purpose was to inform the public what the Administration is trying to do to solve domestic problems, and sound out grass-roots opinion in return. Every Cabinet member participated except those currently involved in foreign problems.

Panels were divided into four subjects: employment and economic growth, urban problems, problems of the aged, and problems of youth. The Cabinet members, Assistant Secretaries, and agency heads who

took part described what the Administration has accomplished so far—a big new housing program, aid to depressed areas, higher minimum wage, social security improvements. They hit at the need for further action in education, medical aid, jobless retraining, juvenile delinquency, urban renewal, and public resource development.

**Getting public's ear.** The Administration did get its story out. With one or two Cabinet members attending in each city, the Administration managed to focus public attention on issues that may have got little notice in the last few months.

Panels of federal officials were so busy telling their story, however, that little time was left to find out what their audiences thought.

GOP National Chmn. William E. Miller charged that the conferences are designed to influence legislation and should therefore be paid for by the Democratic National Committee, not the taxpayers. Local Republican groups denounced the conferences as a political medicine show and a farce. Democrats shrugged off the criticism as "sour grapes."

Most audiences, while miffed at the scant opportunity afforded them to air their views, seemed to appreciate the chance to see the Kennedy appointees in the flesh and listen to what they had to say.

**Kick-off.** Pres. Kennedy opened the first conference in Chicago Nov. 7 with a telephone message broadcast over the public address system. Robert Kennedy hit the theme that much has been done but urgent problems remain, and urged his audience to help "move the country ahead."

To some observers, the sounds were like a rerun of the Presidential campaign. In one morning session, the audience heard speeches from the governor, the mayor of Chicago, and mayors from five other Illinois and Indiana cities. By the time federal housing chief Robert C. Weaver finished his talk, there was time for only a few questions before adjourning for lunch. In the afternoon the

conferees hastened on to another subject.

The more than 1,000 state and local government officials and civic leaders present seemed to feel the conference was a good idea, but badly carried off. Many of the carefully selected participants were already thoroughly familiar with the Administration's program; they wanted to tell the Administration what they thought.

**Keep it short.** After the first three in Chicago, St. Louis, and Nashville, the stage managers of the conferences realized there were too many speeches and not enough time for questions. Telegrams went out to all speakers to keep it short, and the later sessions proved more productive as samplers of local opinion.

Members of the audience at Madison queried by Business Week reporters voiced little complaint of politics or hard sell. The general feeling was that it is helpful to get the thinking behind federal policies straight from the source.

**Denver.** In Denver, the GOP state central committee took out a full page advertisement in the Rocky Mountain News saying: "The Democratic high command are using your tax money to finance this partisan political rally for two purposes: to offer alibis for their failure to follow through on many campaign promises, and to try to drum up popular support that now is lacking."

Such advance blasts might have been expected to touch off fireworks at the Denver meeting, but none developed.

For the most part, attendees came to ask questions and get information. The most vocal of the 700 or more participants represented conservation groups, the Colorado Public Expenditures Council, city planning councils, water boards, and such groups as the League of Women Voters. Typical questions asked: Can a city get federal help in drawing up master development plans? What progress is being made on finding ways to take detergents

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out of waste water? What will be done about unemployment?

**Ballyhoo.** While the speakers generally refrained from direct digs at Republican policies, they certainly felt no restraint in ballyhooing their own.

At Chicago, federal housing chief Weaver described the housing law passed this year as "one of the proudest achievements of the Kennedy Administration." Agriculture Secy. Orville Freeman warned in Madison, Wis., that without a new farm program, "we will automatically revert to the unsuccessful programs that were in effect the past few years."

Walter Heller, chairman of the Council of Economic Advisers, restated the campaign theme that the nation cannot afford "a dignified stroll up the path of economic growth." He promised further economic measures—without specifying what—if unemployment does not diminish in the next few months.

**Detroit.** Long-winded speeches and little time for questions marred the Detroit conference Tuesday and Wednesday. Washington officials cut short scheduled three-hour seminars to catch planes for the next conference in Cleveland. Commented one observer: "The whole affair left a disquieting feeling that a touring group of players had rushed in for a one-night stand, tried to provide a meaningful drama, and didn't quite succeed." Vice-Pres. Lyndon Johnson spoke to a disappointing crowd that only half filled Edsel Ford Auditorium.

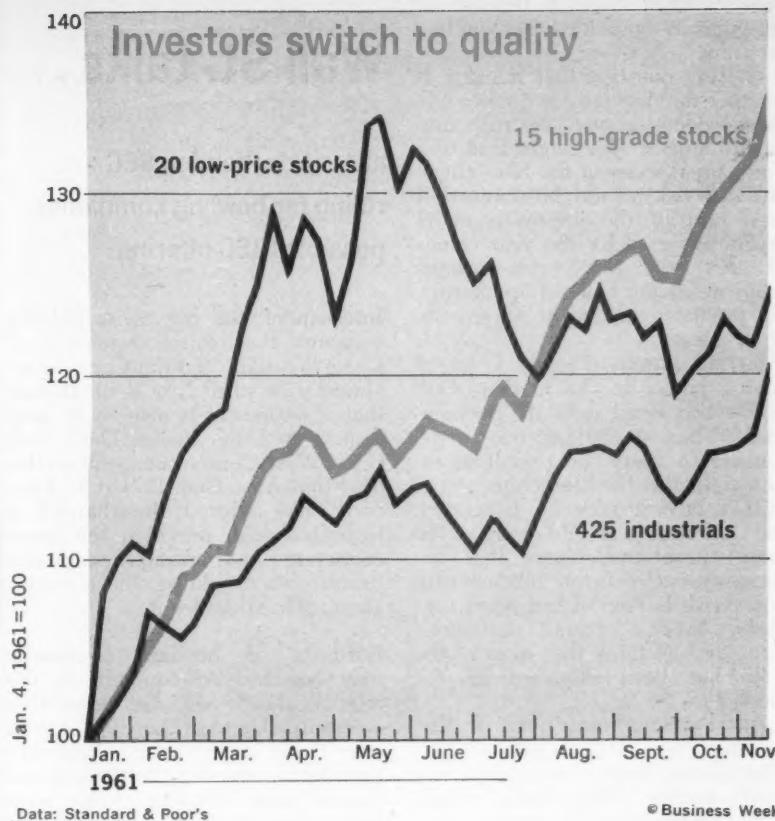
**No mincing.** Federal officials were loud and clear in calling for action on favorite proposals. Atty. Gen. Kennedy emphasized the continuing need for two Administration proposals Congress has failed to act on so far—aid to education and medical aid to the aged. W. Willard Wirtz, Under Secretary of Labor, argued vigorously for a job retraining program to develop skills among those now unemployed, and for improvements in unemployment insurance.

The subjects that attracted the most interest varied.

In Denver, conservation and public resources topics were "hot."

In St. Louis, the biggest crowd turned out for a session on "better opportunities for living in later years"—a discussion of medical aid for the elderly.

When the conferences are all over, Pres. Kennedy will get a report on the audience response and what issues aroused the most interest. There is some thought the President may make a "report to the people" before Congress reconvenes. **End**



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## THE MARKETS

# Blue-chip buying sparks market surge

**Investors—individuals and institutions—are back in market demanding 'brand-name' growth stocks.**

**Though highly selective, they are very much equity-minded**

**By** virtually every popular market yardstick, the stock market surged to a new high this week.

Brokers were surprised at the sudden demand for equities. For the last two months the market has been in the doldrums, with trading volume declining markedly. But investors are buying again, volume has picked up, and brokers are talking in terms of a new leg on the bull market. Even some of the depressed glamour stocks, which have been hard hit by tax-selling, are being sought after.

**Basic shift.** The movement of the broad market averages conceals the basic shift that has taken place

within the market. This is the swing to quality in stock buying. Increasingly, investors are putting their money on industry leaders, the "brand-name" stocks that are familiar household names. They're avoiding the marginal issues that attracted so much attention in the market's speculative binge this spring.

The chart shows clearly what has been happening. The high-grade commons—Standard & Poor's average includes such companies as American Home Products, AT&T, Borden, Campbell Soup, Owens-Illinois Glass, Reynolds Tobacco,

Sears, and Texaco—which lagged behind earlier in the year, have now roared ahead. By contrast, the speculative fringe of the market—of which Standard & Poor's low-price stock index is an excellent mirror—has been dropping off.

**The reason.** Actually, the switch in buying style isn't hard to explain. B. K. Thurlow of Winslow, Cohu & Stetson sums it up this way: "It seems to us that a great many investors who were badly burned in the glamour stocks have decided to return to the straight and narrow path of conservatism and propriety, buying those proven companies that have weathered past storms and are providing respectable current yields. These stocks hardly qualify as 'get rich quick' vehicles, but to inflation-conscious investors they look decidedly superior to government bonds."

Growth has not vanished as a criterion in common stock buying. But investors are now insisting on quality growth. C. C. Colt, who runs the \$85-million Electric Bond & Share Co. portfolio, comments: "The only way you can justify the prices even on the good stocks is on the assumption of considerable growth over the next few years."

The fact is that the seasoned growth companies are still selling at the same extremely high price-earnings ratios that prevailed in the past, and in some cases have gone even higher. Take just three examples: IBM, at well over 60 times earnings; Minnesota Mining & Mfg., at 50; and Addressograph-Multigraph at about 45 times earnings. In effect, the investor who believes in growth as an investment philosophy is saying that he would prefer to pay the premium price for assured growth rather than risk money in lesser quality stocks whose performance may not live up to expectations.

Moreover, investors—and particularly the institutions—are still heavy buyers of financial securities (banks, insurance companies, finance companies, and savings and loan associations) on the grounds that they are among the few remaining "undiscovered" growth situations. This buying, of course, has resulted in progressively higher price-earnings multiples on these stocks.

**Comeback for old standbys.** The shift to quality is evident even among established companies. Many of the old standbys in the market—ones that haven't been getting much of a play until lately—are being bought in quantity. More and more investors are turning to industry leaders in making their purchases. This shows in the recent perform-

ance of such blue chips as Coca-Cola, Sears, GM, Ford, and International Paper, which have been attracting much more attention than the second or third-line companies in the same industry.

Part of the demand may come from the fact that many old-time Wall Street pros will automatically buy industry leaders when they think the market is headed for a general rise. But another factor may be investor confusion about the business outlook, Washington's attitude toward business, and the international situation. When investors are confused, they tend to play it safe by buying quality stocks.

**Institutions, too.** The swing to quality is not confined just to a relatively small number of individual speculators who were caught in the break of the growth stocks. The institutional investors—bank managed trust funds, pension funds, and mutual funds—also have been buying the standard stocks.

Among the mutual funds, there's plenty of evidence of an upgrading of portfolios in their third-quarter reports. Massachusetts Investors Trust made the biggest splash with its purchase of 101,000 shares of AT&T, but other funds and other top-grade stocks were involved as well. Reynolds Tobacco has been in heavy institutional demand for a long time, as have Ford, du Pont, and a smattering of quality rails.

In fact, it's likely that institutional demand will be a key factor in carrying the market well over its current levels before the end of the year. Institutional buyers are concentrating on a relatively select group of stocks that appear to be in short supply. The long-time holders of these stocks—who sat with their blue chips while they were out of favor—have little inclination to sell. So when new buying power comes into the market, prices shoot up sharply.

**Outlook for cyclicals.** But institutional demand for quality is not the only influence that the investor will have to reckon with in the market just ahead. The cyclical stocks—the steels, auto and auto part companies, machinery makers, rails, and many of the chemicals—have also lagged behind the market. If business continues to rise as expected, and the profit squeeze isn't too severe, the cyclicals can be counted on to do some catching up.

Monte J. Gordon of Bache & Co., among others, is convinced that the cyclicals, as well as the oil shares, will become the dominant feature of the market over the next two to three months. Says Gordon: "I think

there's a lot of money to be made in the cyclicals—provided that you buy carefully."

The big question that remains is whether the demand for quality will be overdone—as was the rush into growth stocks. This might lead to a sharp break even in the blue chips. But this risk should be minimal if even part of the improvement in profits expected for the year comes off. It's true that price-earnings ratios are being marked up sharply, but profits are rising at an equally rapid pace.

**Buying power.** There's a lot of buying power in the market—Colt of Electric Bond calls it "phenomenal." Thus, it did not take much demand to spark the rise. This indicates that as the blue chips go up, further buying may be generated, and may spill over into many of the more speculative issues that are currently out of favor. But a return to feverish buying of last April isn't likely. As one veteran customers' man says: "I think that most of the froth has been skimmed off the market."

But the important point is that investors are still equity-minded. There's no heavy switching into fixed income obligations, which would be the case if disenchantment with common stocks were taking place. The shift that is taking place is more of degree than in kind, with investors moving out of the growth issues and into quality stocks.

**Temporary switch?** Ordinarily, analysts say that this kind of shift represents a technical improvement because stock is moving from weaker into stronger hands. But a lot of brokers are dubious. They feel that the current shift to quality is temporary, and will be replaced by a new speculative surge if the economy shows improvement. One broker says: "There's a ceiling on what a blue chip can sell for simply because you know what it has done in the past. But the sky is the limit on a speculative issue because it doesn't have any history. Once this market reaches the ceiling, you'll see another shift taking place."

But the present rally can go a good deal further, for most of the blue chips are still fairly reasonable compared to the speculative growth stocks. And investors want to be sure that business is improving before moving back into the growth issues. One investment manager sums up: "A lot of people have been burned over the past year by indiscriminate investment in growth issues. They still want equities, but they've learned to be much more selective in their choices."

## Wall St. talks . . .

### about Interhandel, SEC ruling for bowling companies, possible IBEC offering

**Interhandel**, the big Swiss holding company that claims ownership of General Aniline & Film Corp., is up almost 15% since Nov. 1 on rumors that a settlement is near in its long dispute with the Justice Dept. over GAF. West German financial circles hear that Atty. Gen. Robert F. Kennedy has offered Interhandel a favorable deal, provided the Swiss cooperate in limiting speculative pressure on the dollar. But a Justice Dept. official denies it.

**Earnings of bowling companies** may be hard to compare in the months ahead. SEC has ruled that a certain amount of their pre-startup advertising and promotion expenses must be expensed out in the year occurred; most bowling chains have been including these costs with capital equipment costs, which they can amortize over a five-year period. The clarification particularly could hurt those companies that have just completed big expansion programs. Bowling company shares generally are well below their 1961 highs, and any confusion that might result from bookkeeping changes could keep a rebound from making any extensive headway.

Brokers are speculating that the merger between **International Basic Economy Corp.**, the Rockefellers' private and profitable Point Four program, and **Transoceanic-AOFC, Ltd.**, a Canadian-based international finance company, may be the prelude to a public offering by IBEC. Together, the two companies will have well over \$100-million in assets, and about \$4-million in earnings. A spokesman for IBEC won't comment, but he admits that "eventual public ownership" would be a "logical course."

**Illinois' state security department** has started a probe of companies listed on American Stock Exchange to see whether they have failed to qualify for registration in the state. Listing on a major exchange up to now has constituted an exemption from registration proceedings, but the state is having second thoughts.

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# In the markets

BW

## Yearend rally is in full swing, with stock prices hitting new high

The stock market's traditional yearend rally gathered steam this week. On the Dow-Jones Industrial Average, prices moved over 734 at midweek to a historic high. And the ratio of new highs to new lows—one of the most sensitive market barometers—was topheavy on the upside. The rally started in quality stocks (page 147), but as it gained momentum it spread throughout the whole list.

The bullish sentiment has been helped by a stream of favorable dividend announcements. These indicate not only that business is good now, but also that companies expect it to stay good—since management will rarely boost its payout, only to have to cut it at the next dividend meeting. But analysts say the market is still very high in relation to traditional yardsticks, and many feel that a further rise will be slower than in earlier stages of this bull market.

## NYSE's plan for central bookkeeping service may run into some roadblocks

The New York Stock Exchange's ambitious experiment with its Central Stock Bookkeeping Service—aimed at eliminating physical delivery of stock certificates—may be running into trouble. There are indications that the cost of clearing stock trades by computer may far exceed possible benefits.

Specifically, some commercial bankers are worried that their profits on stock transfer operations might be cut sharply. According to Ray F. Myers, a vice-president of Chicago's Continental Illinois National Bank & Trust Co., the annual cost of a full-scale CSBS (only 15 stocks are involved at present) could run over \$5-million. Yet, Myers says, "It's not clear who will stand the cost of this operation . . . it's most unlikely that a company would assume any of this expense. And can member firms absorb these costs—or pass them on to their customers?"

For its part, NYSE admits the problems are "real." But it says that it's still a long way from a final decision.

## New SEC rule hits at new issues gambit aimed at stirring up speculative interest

Chmn. William L. Cary's new administration at the Securities & Exchange Commission—which is producing a stream of new regulations to tighten securities transactions—has come up with yet another rule. This one is aimed at clamping down on a common device for churning up speculative interest in new issues, particularly in stocks that have been slow to sell. This device involves holding back shares from the public, while orders simultaneously are being vigorously solicited.

This serves to push up demand, but blocks any selling by purchasers.

Henceforth, "if a bona fide effort is not made to proceed with the offering and sale of registered securities within three business days after the registration statement becomes effective, or if the offering and sale is suspended within 15 days after the effective date, telegraphic or air mail notice . . . must be filed with the commission."

## Government bond prices dip in wake of big Treasury refunding

Bond prices eased—and yields rose—this week in the wake of the Treasury's highly successful \$7-billion refunding [BW Nov. 11 '61, p143]. About 41% of the holders of maturing 2½s swapped their bonds for two relatively long-term issues. Attrition—bonds turned in for cash—was only 7.4%, well under the 10% that is accepted as "normal" in big Treasury refundings.

In the long end of the market, governments were down a point or more. One factor was profit-taking by professional traders who had stocked up on the issues involved in refunding. Another was a tightening money market—probably due more to accident than design, according to bond dealers.

The money supply (demand deposits and currency) has been rising sharply. This has meant a corresponding increase in the required reserves that commercial banks must keep on deposit at the Fed. Bond dealers suggest that the money supply—and required reserves—rose faster than the Fed anticipated, and the Fed, in effect caught off guard, inadvertently failed to supply enough new reserves to keep the market on an even keel.

## Foreign exchanges join the surge upward as Europeans get hopeful over Berlin

Foreign stock markets gained fresh ground this week as Wall Street scored new highs and European hopes grew for a peaceful Berlin settlement.

In Geneva, stocks moved toward their summer highs, paced by banks and insurance companies. The Frankfurt market, hit earlier when investors moved funds to safer spots, also continued a two-week rise. Higher prices were noted, too, in Paris and Amsterdam.

In London, gains were made despite generally lower profits reports by industry. However, while investors are encouraged by Britain's moves to ease its balance-of-payments deficit, there are still fears that entry into the Common Market will bring upsetting problems. So the outlook for a sharp rise in prices is uncertain.

On the Toronto Stock Exchange, the industrial average moved to a new high. Brokers said a chief reason was government success in holding the Canadian dollar at a discount to the U.S. dollar, which helps boost Canadian exports.

# Personal business

November 18, 1961

## Prepare yourself for shifts in tax policy

There's an abundance of talk about tax reform—and, to be sure, much of it is still in the talking stage. But some of the changes are definite enough to warrant an early session with your tax adviser.

A few of the points could affect your planning right now. Others should be taken into account before you file your 1040 next April.

For example, if you own income-producing property, you'll want to watch the proposed 8% tax credit designed to stimulate capital investment.

The credit would apply to your tax bill if you bought new service equipment, say, for an office, store, or similar investment you own on the side. So it might be wise to postpone any such purchase at least until January, to take advantage of the change, if it occurs.

## Closer look at foundations

You can also expect the Internal Revenue Service to be looking a lot more closely at the widespread use of family foundations. As part of a long-range clampdown, IRS is quite likely to deny tax privileges if self-interest is the motive for contributing stock shares to the foundation.

And don't be surprised if the tax agents boggle at use, in yearend tax selling, of a short sale to sidestep the rule against wash sales—selling stock and then replacing it less than 30 days later. One such case has already been questioned by the IRS.

Another possible development: The Treasury intends to press for reform of the municipal bond tax exemption—which, essentially, may mean a closer definition of what is and is not exempt. A few cases of abuse have drawn the Treasury's attention to this area.

It's still uncertain whether taxes will be withheld on dividends and interest. But in any case, taxpayers with higher incomes (say, \$20,000 and up) face an even greater chance than before of an audit to make sure they report such income. If you list a high salary—and income from no other source—your return is sure to be flagged for a quiz.

On one subject—travel and entertainment—the message is simple and direct: Go easy on all deductions. Proposals in this area include the House Ways & Means Committee's limiting business gifts to \$25, and the Treasury's putting a \$32 daily top on food-and-lodging expenses on the road.

But whatever happens to these ideas, enforcement will be much stricter. To avoid hassles with IRS, detailed and verified record keeping is a must—especially for wining and dining. You can no longer fall back on the old rule allowing you a "reasonable estimate" if you don't keep records but can show some evidence.

The package auto insurance policies are gaining wider acceptance.

They give you liability, collision, and comprehensive (fire, theft, etc.) in one package—at a saving of 10% to 15% over similar coverages bought separately under a standard family policy. Generally, these are simpler policies and renew automatically each year.

Today, they are offered by many leading companies in 40 states. Now, for the first time, New York state car owners can get dual coverage under a package introduced by Liberty Mutual.

## Reporting other income

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Today, they are offered by many leading companies in 40 states. Now, for the first time, New York state car owners can get dual coverage under a package introduced by Liberty Mutual.

## Personal business Continued

This package gives you features similar to the others. If you are a safe driver and go a year without an accident, you get a discount on your annual premium of 2%; this goes to a maximum 10% a year after 5 years. Other companies reduce the yearly premium as much as 20% (maximum). Conversely, with Liberty Mutual, every accident results in a 10% increase in the premium.

You'll find that most package auto policies require 60 to 90 days' notice before cancellation by the company, except for non-payment of premium. Most also provide uninsured motorist insurance—which gives you and your family protection covering bodily injury, if you are involved in an accident with a driver who has no liability coverage.

### Books on Russia

Your appetite may have been whetted recently for some information on the Soviet Union [B&W Oct. 28 '61, p52]. If so, you may be interested in three books just out.

**House Without a Roof**, by Maurice Hindus (Doubleday, \$6.95), is a kaleidoscope of the people who make up Russia today, based on recent visits by the author to his native country. **A History of Russia**, by Jesse D. Clarkson (Random House, \$10.00), presents a panorama of 11 centuries of history compressed into 756 pages. And the broad, comprehensive **Encyclopedia of Russia and the Soviet Union** (McGraw-Hill, \$23.50) will serve as a good reference in following today's international news.

### For flying fans

Your private flying won't be affected for some time by the Beacon Project report, which came out this week and recommends broad changes in air traffic control (page 25). The \$500 altitude-reading beacons recommended for all planes are not yet being manufactured.

Meantime, the thrills and dangers of **Cross Country Flying** are well set forth in Martin Caidin's latest aviation book (Dutton, \$4.95)—a superior guide if you're considering such an adventure.

### Records spoof business world

RCA's recording of the score from the new hit show, **How To Succeed In Business Without Really Trying**, pokes some ungentle fun at big business (mono, \$4.98; stereo, \$5.98). British humor is at its best as **Prof. C. Northcote Parkinson Explains Parkinson's Law** and explains such things as how to eliminate your boss by aging him with a mass of paperwork (Libraphone, \$5.95). And if you're an ad executive, there's a recording of 58 well-known commercials, orchestrated by Lester Lanin. You'll find **The Madison Ave. Beat** surprisingly danceable (Epic, \$3.98; \$4.98).

### Omnibus

An authoritative booklet, **Your New Social Security, 1961-62**, is now available (Commodity Research Publications, 82 Beaver St., New York 5-506). . . . **Reminder:** Your S. S. tax goes from 3% to 3 1/8%, Jan. 1; for self-employed, it's 4.5% to 4.7% . . . **Warning:** In buying perfumes this Christmas, guard against deception—BBB points to widespread rebottling . . . For camping and hunting, you can outfit your station wagon into a newly designed mobile cabin (Travel Equipment Corp., 60 West 46th St., New York 36—about \$3,400) . . . **Film slide projectors** now come in sleek walnut-veneer consoles, with all pushbutton features (Argus, \$400) . . . **Care of contact lenses** is easy with a new portable kit (M. L. Obitts, Inc., La Grange, Ohio—\$3.50) . . . **For leaky basements**, check on Epoxite, new epoxy plastic.

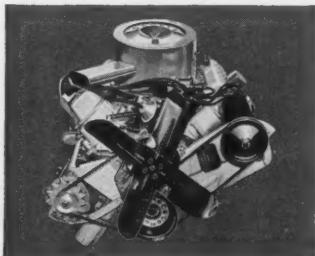
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## PRODUCTION

# How trees of concrete grow apartments

**Marina City's 60-story concrete trunks are rising just two blocks from Chicago's Loop with help of "climbing cranes." They will be central cores of 896-apartment project**

**Two towering concrete trunks** (pictures, below and right) for a pair of "tree houses" are changing Chicago's downtown skyline and casting a shadow into central city areas throughout the country.

The trunks are actually central service cores for twin 60-story garage and apartment buildings, which the architect calls tree houses. They are rising from a construction site on the north bank of the Chicago River two blocks from the Loop.

When completed, they will form the residential portion of Marina City, a \$36-million development of the city's central area (picture, left), sponsored by the Building Service Employees International Union.

Two bright red "climbing cranes"

from Europe lend additional luster to construction of the trunks, the world's tallest reinforced concrete structures. The cranes "climb" aloft atop the rising trunks, pouring concrete as they go.

Although the taller core will be topped out next week, its crane will remain on a lofty 585-ft. perch to hoist everything from construction materials for the garage and apartment sections being built around the core to kitchen sinks for completed flats.

### I. Streets in the sky

The building service union sponsored Marina City to strengthen Chicago's downtown area and at-



**Scale model of Marina City** shows its two apartment towers, offices, stores, theater, and marina on Chicago River.



**Originators of project**, rising behind them, were W. L. McFetridge (left), of Building Service Employees Union, who proposed it, and C. R. Swibel, who arranged financing.



**Novel design and construction** include towering concrete cores (above, and right) housing apartment utilities, and "climbing cranes" that hoist materials, pour concrete.

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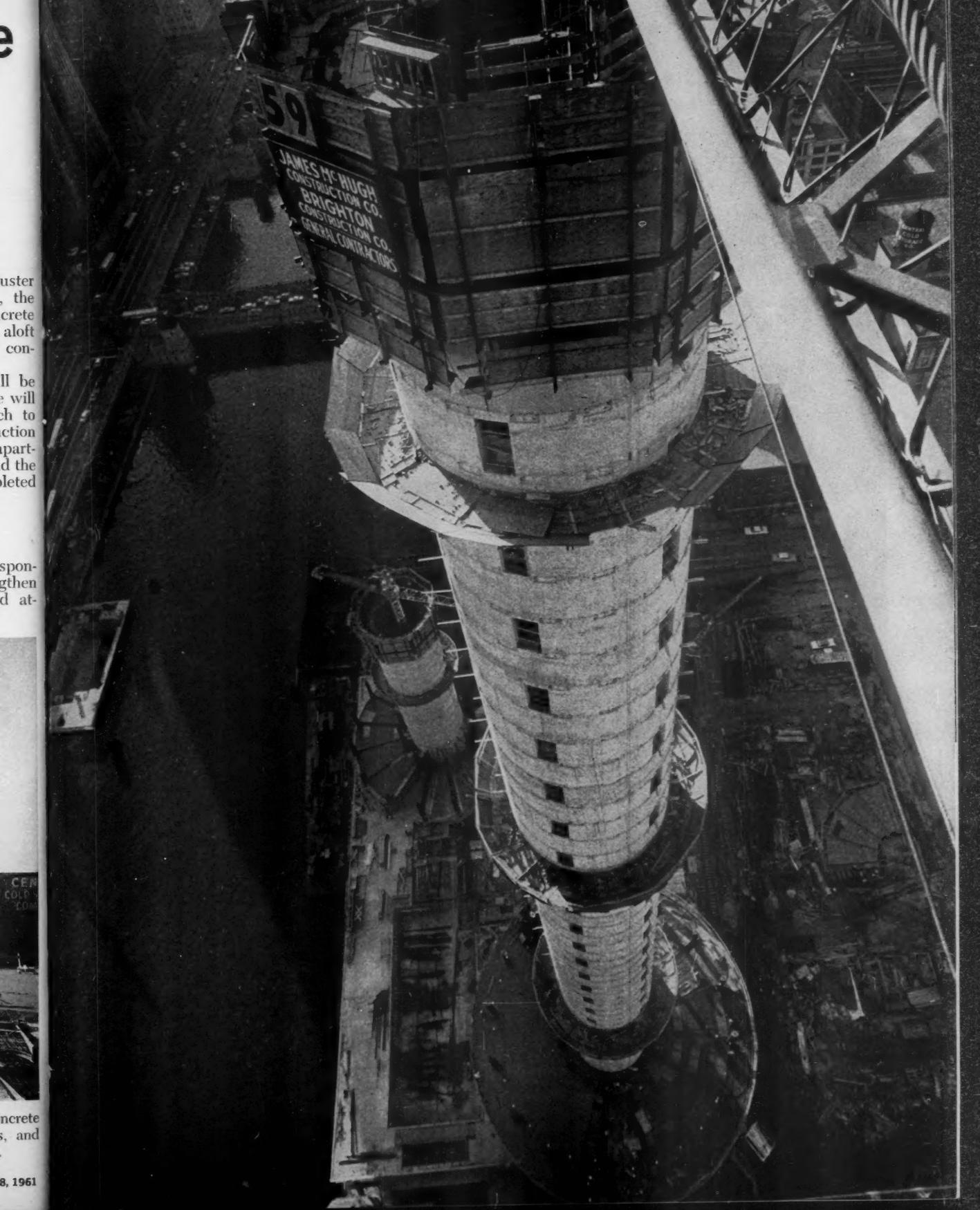
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tract capital to similar ventures in other cities. Projects are planned tentatively for New York, Los Angeles, Pittsburgh, Cleveland, San Francisco, and Cincinnati.

Two legally separated but related parts, split by a private street built over a right of way of the Chicago & North Western Ry., comprise Marina City. The residential portion—Marina City "A"—will consist of the two circular towers, whose upper 40 stories will have 896 apartments, each with one or more semicircular balconies.

The lower 20 stories will have tenant storage and laundry facilities, and garage space for 896 automobiles, serviced by spiral ramps. Around the bases of the towers will be a two-story commercial platform. The lower level fronting on the river will be the marina that gives the project its name, with facilities for 700 small craft. The second story will have commercial, restaurant, and recreation areas, including an ice skating rink and swimming pool.

Marina City "B," across the right of way, will have a block-long, 10-story office building, a 1,200-seat theater-auditorium, and a 54-lane bowling center.

**Vertical streets.** Architectural and engineering "firsts" abound in Marina City. Not only are the twin towers probably the first circular apartments, but the project, all-electric, is also the world's biggest smoke-free apartment building.

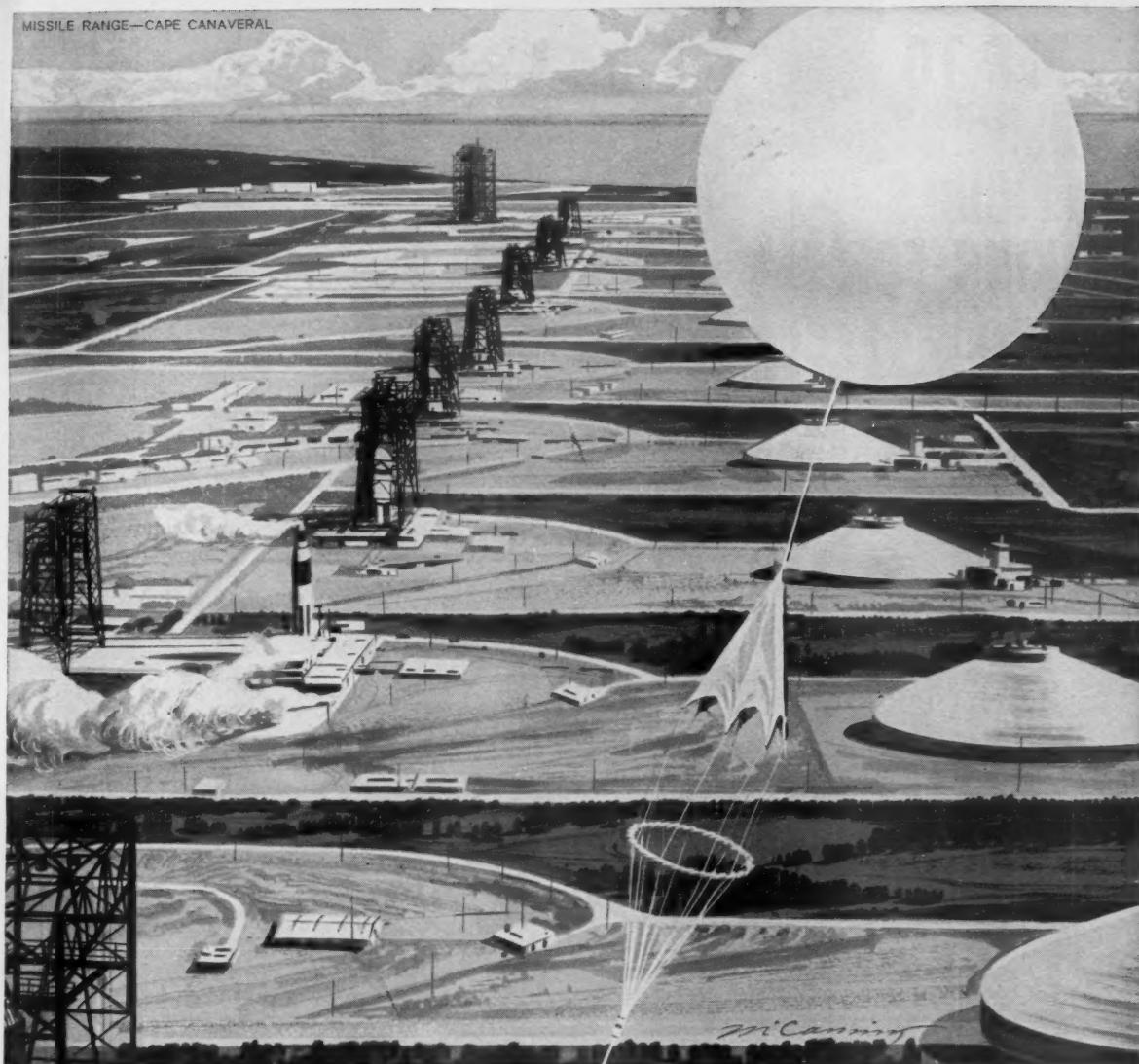
Possibly the most significant first, though, is the city-within-a-city concept of architect Bertrand Goldberg (picture, page 160). He designed the buildings around the central cores, 35 ft. in diameter, which he calls "city streets in the sky"—a vertical system carrying the utilities and services available along city streets.

There is mass transportation (five high-speed elevators); electrical transmission (12,000 volts worth); a sewage system (cold water and plumbing); and garbage collection (a refuse chute). Mechanical and electrical equipment for these services will be housed in a five-story section of the core projecting above the residential areas. Provisions for heating, cooling, and hot water are installed individually in each apartment.

**"Tree houses."** The circular shape is logical, says Goldberg. Each dwelling unit is equidistant from the utilities of the vertical "street."

A circular shape, too, allows the greatest amount of area within the skin for the least amount of skin surface. And the circular shape has about 30% of the wind resistance of a rectilinear structure with the same

MISSILE RANGE—CAPE CANAVERAL



## National Distillers and Panhandle Eastern will help U. S. conserve Helium— A LIGHTWEIGHT GAS WITH HEAVYWEIGHT DUTIES

Lightweight helium is receiving heavyweight responsibilities in the space age. It performs vital tasks in missile fabrication and operation, in nuclear reactors and in industrial applications, including shielded-arc welding. Helium consumption in the U. S. has increased ten-fold in the past twelve years.

National Distillers and Chemical Corporation and Panhandle Eastern Pipe Line Company have been selected to implement a Federal Government program to conserve the nation's diminishing supply of this vital gas.

The two companies have formed a jointly owned subsidiary, National Helium Corporation, to build and operate a plant at Liberal, Kansas, which will extract from natural gas a billion cubic feet of helium annually. The

helium produced will be sold to the government for stockpiling on a 20-year contract, delivery to begin when the plant goes on stream in two years. When completed, the plant will be the world's largest source of helium.

The operation will also be the world's largest application of the new science of "cryogenics"—the industrial use of extreme sub-zero temperatures. Helium will be produced at the plant at temperatures as low as minus 300° F.

Helium recovery and conservation is another step in National's continuing program for growth in industrial chemicals, metals, and plastics designed to help meet the nation's increasing needs for vital materials for peace and defense.

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**TAILOR-MADE REPORTS.** The table of contents shown above is typical of the survey of selected plant locations that we will prepare for your organization. Simply send your specific requirements on your business letterhead to Commissioner Keith S. McHugh, New York State Department of Commerce, Room 3317, 112 State Street, Albany 7, N. Y.

*Keith S. McHugh*

Keith S. McHugh, Commissioner  
New York State Department of Commerce



**Architect** Bertrand Goldberg designed towers, with garage space on lower floors, apartments, above.

dimension. This means a saving of material, since the concrete need not be so thick nor the reinforcing so great.

Apartments start at the 21st floor to get away from the street noise and dirt and give a better view. There are 32 stories of efficiency and one-bedroom apartments, and above that, eight stories of one- and two-bedroom units. Each floor has 16 bays, with a 20-ft.-wide balcony to each bay.

Efficiency units get one balcony, one-bedroom units a balcony and a half, two-bedroom apartments two and a half balconies. Apartments are entered from a circular hallway around the core.

"We are building tree houses," says Goldberg. "The shape of these buildings has the relationship of a tree to its branches. No apartment door faces any other. Each apartment is connected to its trunk—the building core. On a subjective level, this produces a feeling of the individual house not experienced in the cellular beehive type of planning."

## II. Climbing concrete

Goldberg chose concrete for reasons of economy and design freedom. "Concrete is a plastic material and we are doing things here we could not do with steel, and at a lower price," he says. "We tried an alternative design in steel, but it would have cost 10% to 15% more."

Goldberg's original design specified slip-form concreting, in which forms are hydraulically jacked as the building rises. This method, theoretically faster than stage pouring,

is useful for building simple round or rectangular structures, such as silos, grain elevators, and bridge piers.

But the Marina City cores are checkered with openings for doors and floor beams. So the alternative method was chosen of using climbing cranes to pour concrete in stages.

The method was suggested by the James McHugh Construction Co. of Chicago, which was the successful contractor when Goldberg called for bids in February, 1960. Because of the pioneering nature of the job, McHugh later joined with the Brighton Construction Co. of Chicago in a joint venture. Brighton supplied capital; McHugh handled construction.

**Cranes from Europe.** The principal advantages of climbing cranes is their pinpoint materials-handling capability, which saves time and labor. They are common in Europe since World War II but have been little used in the U. S. They hoist and spot materials—in this case, forms, reinforcing, and concrete—exactly where needed. This eliminates the usual bucket-brigade handling.

McHugh's cranes are Linden models from Denmark with "Americanized" electrical and transmission systems. They cost originally about \$32,000 each, but with the changes the cost came to \$36,000 or \$37,000.

They are especially useful in the limited elbow room of an urban site. At Marina City, the 60-ft. mast supporting the crane's jib-boom or working arm is anchored to a horizontal surface inside the core. On the boom, a load-carrying trolley with a two-part hoist line rides a single rail along the boom's 100-ft. length. The boom's working end is balanced by a counter-jib with 48 concrete slabs of 180 lb. apiece.

The crane has a 3-ton capacity at the end of its boom, and can reach any point within 200 ft. of the core's center. Load capacity increases closer to the mast. A single operator controls all the crane's functions—hoisting, rotation, and movement along the boom—by three switches on a portable control panel.

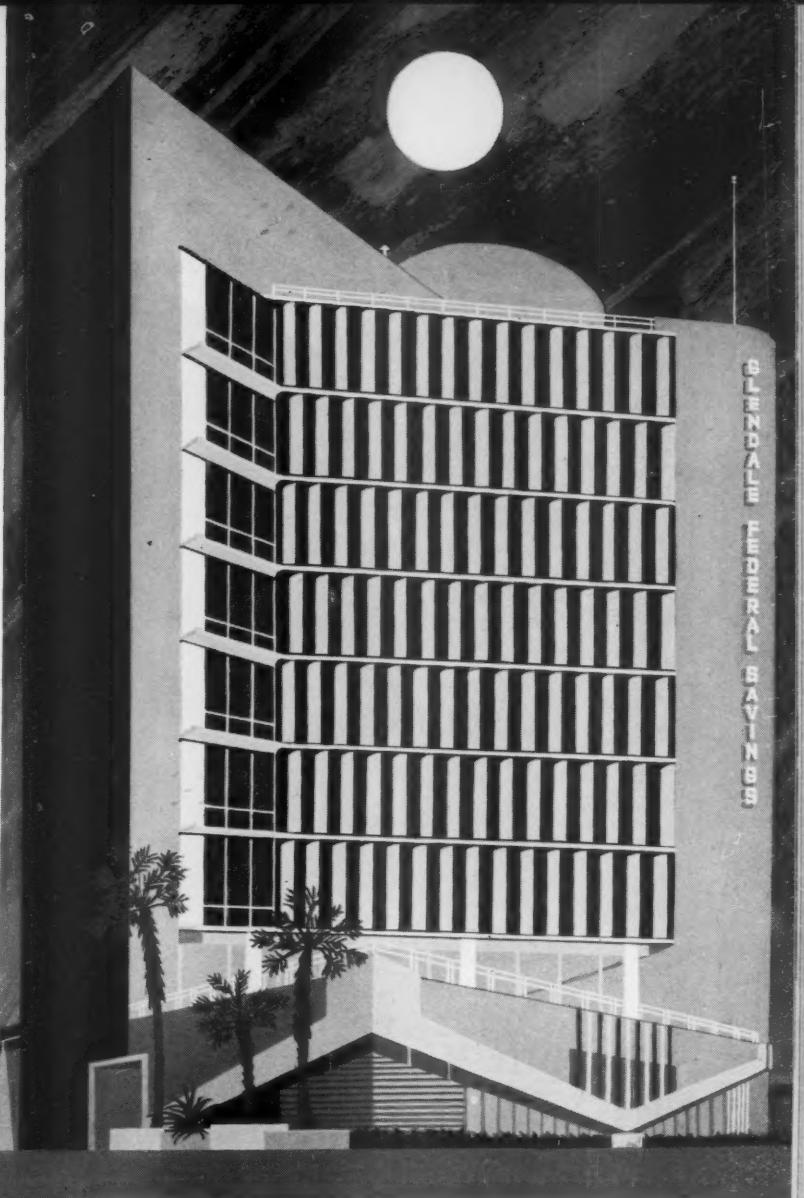
**How they climb.** The cranes, though workhorses in production, need the help of hydraulic jacks to "climb." The bottom of the mast is actually two or three floors below the working area, and is secured by bolts to two wide-flange "I" beams. One floor above there are two jacks, one on each side of the mast, bolted to the mast by horizontal steel rods. When the hydraulically operated jacks are actuated, the rods are

# These companies make news, working with aluminum...

WHAT CAN THEY MAKE FOR YOU?

**Kawneer gives new "life" to aluminum.** An exciting example of the beauty of aluminum can be seen in this new building. The Niles, Michigan firm supplied all of the colorful curtain walls and aluminum louvres. One of the largest suppliers of aluminum building components, Kawneer also developed the "Core" System, a simplified method of joining a few aluminum components into systems, such as entrances, windows and facings.

**Nichols Wire and Aluminum puts a permanent new look in fencing.** Think of it! No maintenance! No labor! No paint! That's the cost-saving story of *Beauty Guard*, a new 1" mesh chain link fencing produced for home use by Nichols of Davenport, Iowa. This exciting new residential development follows naturally upon Nichols pioneering in 2" mesh *Never Stain* aluminum fencing for highways, parks, schools and factories.



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inched upward, and the mast along with them.

When the bottom of the mast clears the floor that will be its next temporary resting place, beams are shoved over the hole it has just passed through, and it is secured again to these beams.

James P. McHugh, son of the McHugh company president, gives the cranes high marks for materials handling. (He builds about three and a half stories of the core a week with them.) But he is critical of their braking systems, which do not prevent violent yawing of the boom and hoist line in winds over 20 mph.

**For speed.** McHugh adopted the core-first, outside-later construction technique for efficiency. Installation of elevators and electrical wiring in the core can be scheduled without waiting for the rest of the building to catch up. By the time apartments are built at upper levels, the core's service systems will be set to go, and occupancy can proceed.

As the core rose, pockets were left for floor beams for the outside construction, and reinforcing bar (rebar) anchors were installed in the pockets at beam locations. When it comes time to pour a beam, reinforcing for the beam is tied to the rebar anchor, and forms are set up. Beams can then be poured in place as needed.

**Plastic forms.** Another important factor in McHugh's construction plan was the use of plastic forms with fiber glass reinforcement. McHugh says wooden forms would have been difficult, and costly, to fabricate, and would not stand up under re-use. But at the completion of the first tower, a single set of seven of the circular plastic forms will have been used 61 times.

Completion of Marina City is expected by late 1962, with some occupancy of the towers possible by next spring.

### III. Men for the job

The idea for Marina City came from William L. McFetridge (picture, page 156), former president of the Building Service Employees International Union. In 1959, he revived a pet union idea of sponsoring a pilot housing project in downtown Chicago that would combine in one package middle-income living space with commercial and recreational facilities.

McFetridge explains that the union members, for their own job safety, want to attract middle-income renters back to the central city. And the union's \$13-million equity in Marina City will probably yield a

7% return, against 4% or so available from government bonds.

**Finding an architect.** McFetridge took his idea to mortgage banker Charles R. Swibel (picture, page 156), at 34 a five-year veteran of the Chicago Housing Authority. Swibel suggested that architect Goldberg, who had done a remodeling job for Swibel, might be the right man for designing such a project.

Goldberg, born in Chicago in 1913, got his architectural training at Harvard, the Bauhaus in Berlin, and the Armour (now Illinois) Institute of Technology. One of his masters at the Bauhaus was Ludwig Mies van der Rohe. He started early with experimental ideas—such as a service station supported by cables from a pair of steel masts.

Since 1953, Goldberg has concentrated on high-rise buildings and multi-building, multiple use communities. In 1954 he won Progressive Architecture magazine's national competition for residential projects with his Northtree apartments in Kansas City, Mo.—his first application of the central core principle to high-rise buildings. In 1956 he started converting theaters all over the world for the late Mike Todd and the Todd-A-O process.

**Financing hurdles.** With Goldberg taking over the Marina City design, Swibel undertook the financing. As the union's agent, he acquired for \$2.8-million from the Chicago & North Western Ry. Co. a 3.1-acre site designated in 1810 as Block No. 1 in the original town of Chicago.

Because of the air rights easement over the section of track splitting the property, Swibel had to split the project into two legally separated parts—commercial and residential—to get backing. He arranged the finances so that income from the commercial part would, in effect, subsidize the residential.

On the commercial part, Swibel got a conventional real estate mortgage of \$5-million from the Continental Illinois National Bank & Trust Co. of Chicago.

The Federal Housing Administration insured the residential part under Title 207 for \$17,819,100. Chicago bankers weren't interested, but Swibel got a stand-by commitment from the Federal National Mortgage Assn. (Fanny Mae) to purchase the mortgage at a 10% discount. On this basis Continental Illinois advanced \$17-million in February.

Finally, last month, Swibel was able to sell the mortgage at a discount of only 3% to a group of 18 Eastern banks. That completed Marina City's financing. **End**



Ten Gardner-Denver tunnel drills on Gardner-Denver "jumbo" drill carriage start up-hill water tunnel on Taum Sauk project for Union Electric. Utah Construction Co., contractor.

## Water climbs mountain—pours down at a profit

Gaining electric power by pumping water up a mountain may sound like "operation bootstrap"—but the \$50-million Taum Sauk project, designed for that purpose, is, in fact, a brilliantly practical solution.

The site is a 900-foot high granite knob, appropriately named Profitt Mountain, in the Missouri Ozarks. Here, water will be pumped through a 6800-foot tunnel 26 feet in diameter to a 50-acre mountain top reservoir, only to descend in a torrent to another reservoir at the bottom.

The principle, though relatively new, makes sense. Up-hill pumping will take place in the night hours, when generators in the St. Louis area have the excess

capacity to do it. Then, during the day, when power demand is high, the water will roar down to generate electricity for peak loads in the same area.

Although the pumping operation will consume three kilowatt hours of energy for every two that it produces, the utility will still make a sizable saving in thus providing peaking power.

Drilling the 6800-foot tunnel through solid rock demands equipment of proved speed and stamina—equipment that can stay on the job. Here, as on major tunnel jobs throughout the world—Gardner-Denver tunnel drills were the choice.

Gardner-Denver Company, Quincy, Illinois.



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## NEW PRODUCTS

# Camera with glass-fiber 'probe' takes pictures around corners

**It's designed for inspection of inner surfaces of thin water channels in nuclear reactor, but it promises to do other inspection jobs in hard-to-see places**

**How do you inspect** interior surfaces of a hot nuclear reactor, the inside of a steam boiler, or any other object so inaccessible that it defies examination by conventional means?

One practical answer to the question is being offered by Optics Technology, Inc., Belmont, Calif., in a probe camera that utilizes the remarkable light-transmission properties of optical glass fibers. These fibers can transmit a light image around corners or over a winding path.

The camera, with its 12-ft.-long ribbon-like probe of optical fibers attached, was designed and built for a special purpose—the meticulous inspection of the dark interior surfaces of channels that carry coolant through a pressurized-water-type nuclear reactor.

**Inspection poser.** A reliable method was needed to search for pits, scratches, corrosion, and other flaws on the inside of the slender, flat tubes that separate the water coolant from the fissionable material that fuels the reactor.

Any leakage of radioactivity through the walls of the tubes into the water stream would create a serious hazard. The metal channels are up to 12 ft. long and 5 in. wide, but so thin—.055 in.—that you can hardly slide a dime through them.

The OTI motion picture camera, using either standard black and white or color film, inserts a flat probe at a rate of from 122 in. to 200 in. per minute into the channels for an inch-by-inch photographic examination. Within its dime-thickness, the probe, 5 in. wide, incorporates two layers of stainless steel as a protective case, with four ribbons of flexible glass fibers sandwiched between them.

**Light pipe.** OTI draws the fibers from optical glass of high purity and coats them with a glass of a lower refractive index, which makes each fiber into a "light pipe." Put a beam of light into one end of the fiber and, no matter how you twist

it, the light emerges from the other end—an illustration of the principles of total internal reflection. As drawn by OTI, the coated fibers are .002 in. thick, and it takes 2,500 of them side by side to make up a ribbon 5 in. wide.

In the camera probe, two 5-in. ribbons of fiber—each, in effect, an array of 2,500 light pipes side by side—conduct the light from a 1,000-watt projector lamp at the camera to a tiny mirror at the end of the probe. The mirror reflects the light to the surface that's to be photographed. Light rays reflected from that surface are picked up by the ends of two other ribbons of optical fibers in the probe and carried back in the form of an image to the film inside the camera. The developed film then permits detailed inspection.

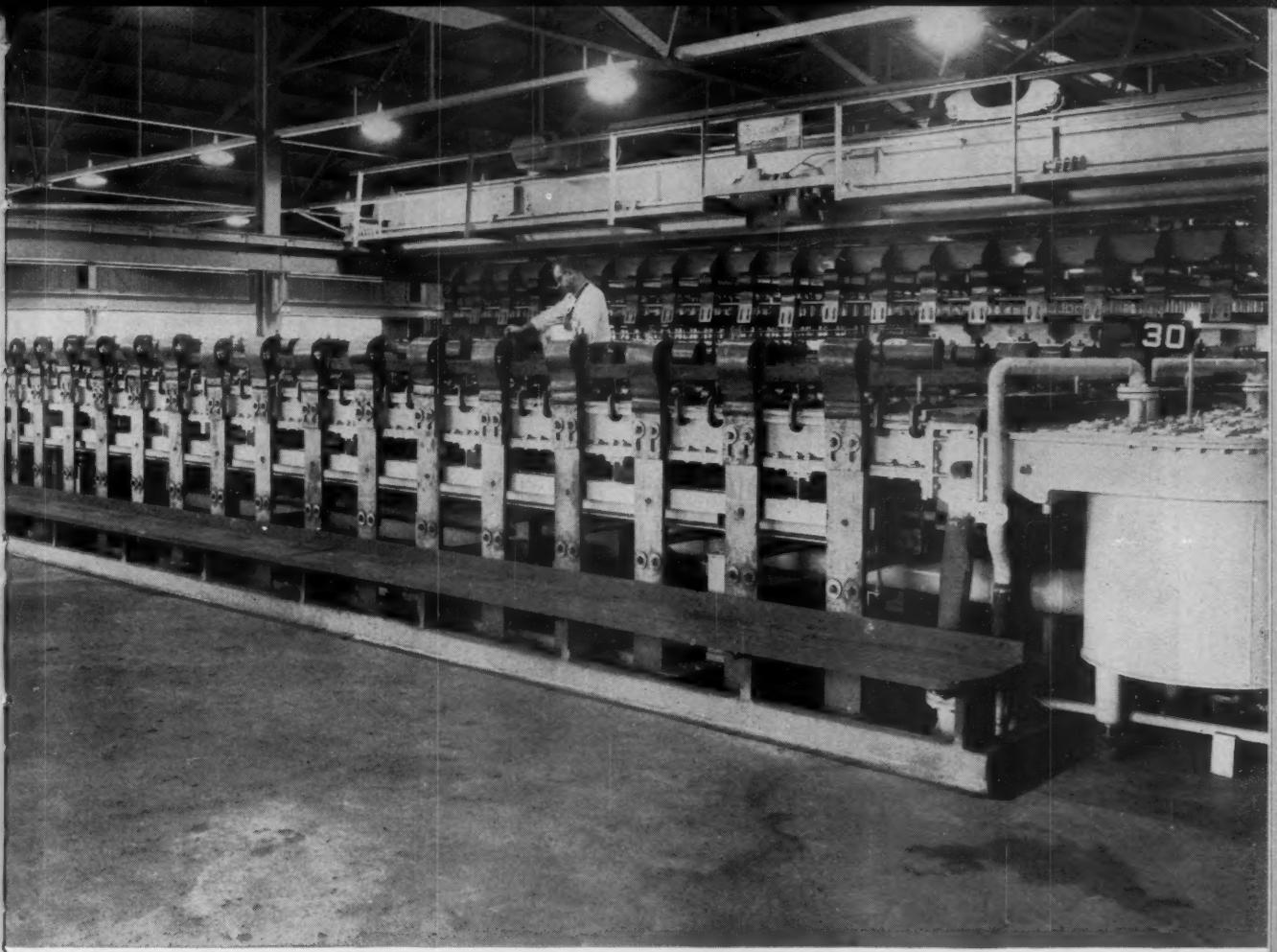
**Can do other jobs.** According to Dr. Narinder S. Kapany, president and research director of OTI, the principle of light conduction by optical glass fibers is readily adaptable to the most challenging tasks of interior inspection, including coiled tubing and the human body.

He visualizes the probe camera as useful in inspection of propellant grain in the interior cores of solid rocket engines, where any surface deviation can alter the propellant's burning characteristics and prevent successful completion of the rocket's mission.

Another industrial use is the inspection of the curved and twisted tubing in turbine feeds or any curved tubular channels.

Properly modified probes can also be used for internal examination of the human body and, because of their flexibility, should cause less discomfort than other types of probes [BW Oct. 22 '60, p149].

The camera and probe built for use in a nuclear reactor sell for \$60,000, including a selection of probes ranging in length from 9 ft. to 12 ft. and in width from 3 in. to 5 in. **End**



Mercury cell room in Olin Mathieson's New Niagara Unit

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example of "Process-Ability" — the unique contribution of Blaw-Knox in the process industries. It is one more chapter in a long history of advanced engineering, manufacturing and construction services to industry and government. Blaw-Knox excels where the immediate aim is to increase the efficiency or the profitability of an enterprise. Investigate these capabilities for your improvement or expansion programs. Write for a copy of "This is Blaw-Knox." Blaw-Knox Company, 300 Sixth Avenue, Pittsburgh 22, Pa.



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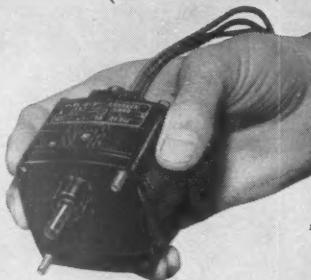
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## Movie projector by Technicolor

Film processor offers home projector that uses film packed in cartridge

Technicolor Corp., Hollywood, Calif., the movie color-film processor, is making its first entry into the consumer products field with an 8-mm. silent motion picture projector for home use. Called the Instant Home Movie Projector, it uses film packaged in a cartridge to eliminate complicated, time-consuming reel threading and rewinding.

**How it works.** The film comes from Technicolor processed and mounted in a plastic cartridge ready for showing as soon as the cartridge is snapped into the projector. After a showing, one cartridge is snapped out of the projector and the next one inserted in its place. A single cartridge holds 50 ft. of film, 4½ minutes of movies, and can be repeated continuously. The cartridges hold any brand of 8-mm. film. Cost is \$1 each, with film-processing extra.

In addition to processing hobbyists' films, Technicolor plans to distribute for home use more than 500 different cartridge-packaged educational and entertainment films.

The Technicolor projector is available this month at \$99.50.

The nearest thing to the new model is an 8-mm. sound projector for industrial use made by Fairchild Camera & Instrument Corp. [BW Jun. 17 '61, p154]. It uses a magazine to hold the film. The operator has to splice the film ends together for automatic repeat.

### New products briefs

**A liquid adhesive** for attaching labels and small trimmings to garments instead of sewing them on is being tested by American Fabrics Co., New York. The company says the adhesive will hold during both washing and dry cleaning.

**A hollow vinyl practice golf ball** with a built-in tee is being marketed by B. F. Goodrich Chemical Co., a division of B. F. Goodrich. In flight, the tee travels with the ball. Price is three for \$1.

## ELECTRONICS MARKETING MGR.

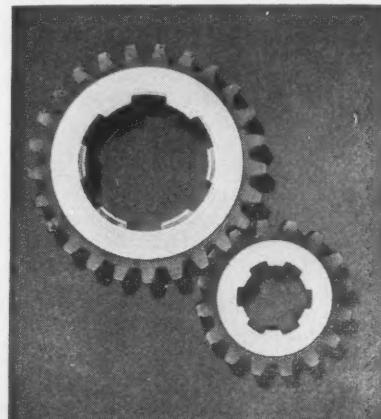
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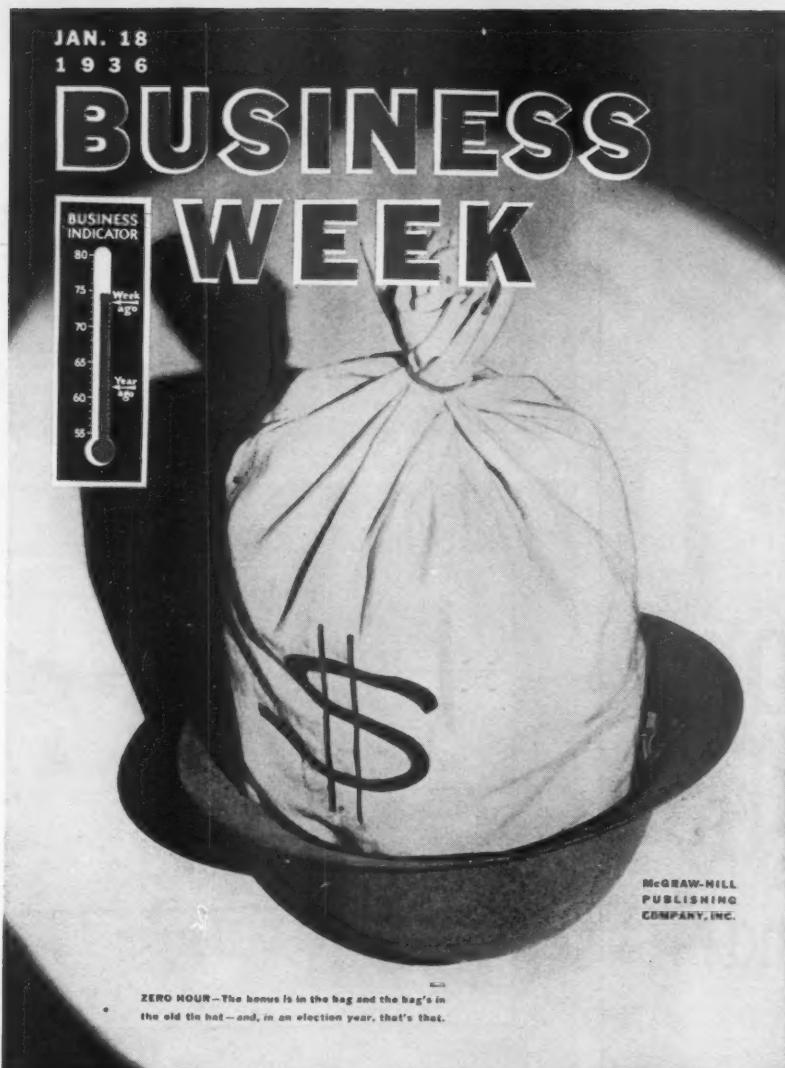
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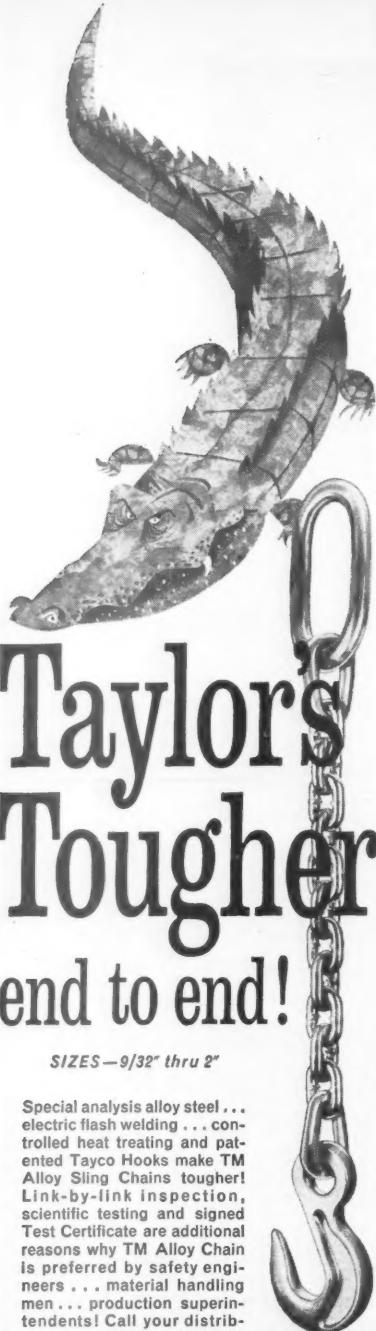
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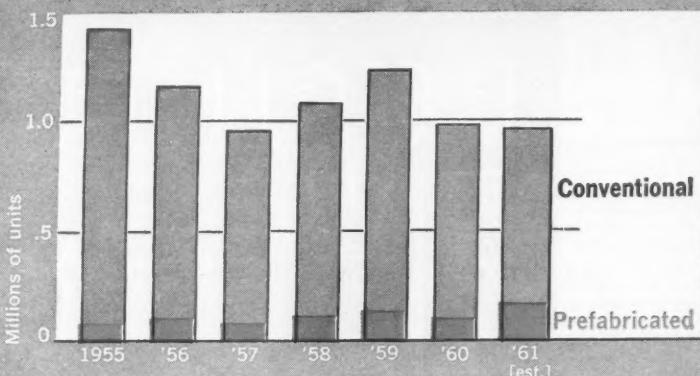
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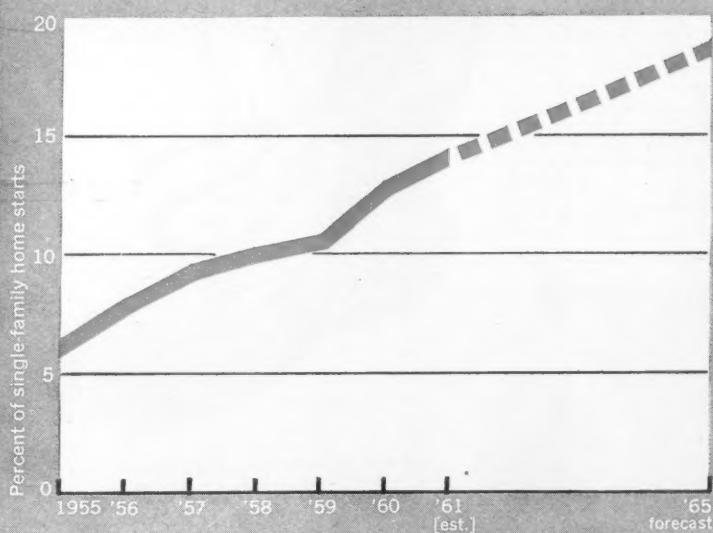
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## Prefabs' share of single-family home starts... big



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## And bound to grow bigger



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## CHARTS OF THE WEEK

### Prefabs take a bigger chunk

A dramatic change has come to the homebuilding industry in recent years. Factory-built houses are cutting an increasingly wide swath in the single-family home market, and are doing a lot better than the traditional field-built variety.

During 1961, shipments of prefabricated houses are expected to reach 140,000 units—up more than 10% from 1960's impressive showing. At the same time, total starts on one-family dwellings will probably decline by more than 1%.

According to the Home Manufac-

turers Assn., prefabs' share of single-family starts will approach nearly 15% this year, marking a spectacular growth from 1955 when it was less than 7%.

Industry experts expect manufactured homes to carve an even bigger slice from the homebuilding market in the next few years as builders strive to reduce costs. By 1965, around 19% of new single-family dwellings will be factory-built, according to the consensus of building market analysts polled recently by the American Marketing Assn.

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# The payoff for skillful debt management

A little cooperation—and imagination—can accomplish a good deal. This seems to be the moral of the recent relationship between the debt managers at the Treasury and the money managers at the Federal Reserve.

In the past, first one and then the other held sway. During the immediate postwar period, when the Fed was the handmaiden of the Treasury, the emphasis was on cheap money. The Fed "pegged" the government bond market to facilitate sale of the Treasury's securities at low rates, and this resulted in swelling the money supply to inflationary proportions.

After the Fed regained its independence in the 1950s, the situation was reversed. The main reliance for contra-cyclical policy was placed in the hands of the Fed, while the role of debt management was clearly subordinate. This produced extreme fluctuations in interest rates, and the Treasury was frustrated in its hopes of lengthening the debt by converting a substantial part of it to long-term issues.

Over the last year, however, the Fed and the Treasury have been moving closer to each other. They have sought to shore up short-term interest rates, in order to discourage an outflow of capital to higher-yielding money markets abroad. At the same time they have tried to hold down long-term rates to encourage more spending for capital projects at home.

This has not meant any real diminution in the

Fed's freedom of action. But it has given the Treasury an opportunity to share the burden of stabilizing the economy by using debt management more effectively.

The latest evidence demonstrates that the debt managers are doing a good job. They have just completed a \$6.9-billion refunding, which resulted in a significant stretch-out of the debt (without materially affecting long-term rates) and a rise in the short-term rate.

With the Treasury now making active use of debt management, the money managers have much more flexibility than they did when they were, in effect, trying to stabilize the economy singlehandedly. And they are demonstrating that they can use this freedom to advantage. There has been no rapid tightening of the credit brakes such as there was during the 1958-59 recovery. On the contrary, the Fed has been able to increase the money supply during the present recovery because the Treasury is experimenting with noninflationary techniques in its handling of the debt.

The new cooperation between the Fed and Treasury does not solve the problem of the deficit in the balance of payments. Nor does it assure that we will have a balanced budget in the next fiscal year. But the advance in technique has provided the Administration with some breathing space in which to tackle its major problems. Thus it has not only been a welcome experiment; it has also been a useful one.

## Help for export credit

The Administration is to be congratulated on the new export credit and insurance program recently announced by the Export-Import Bank [BW Nov. 4 '61, p110]. The program should be a real help to U.S. exporters, both large and small, by enabling them to offer more credit to foreign buyers on short and medium term.

Under the new plan, the Export-Import Bank will make more export insurance available through a single all-risk policy administered by the Foreign Credit Insurance Assn. (FCIA)—a group of private insurance companies with offices all over the country. To increase the credit available through commercial banks, Ex-Im will give guarantees to private lenders for non-recourse financing of exports. In each case, the exporter will carry part of the risk.

If the details of the new program can be worked out satisfactorily, U.S. industry will have one of

the world's most comprehensive export credit systems at its disposal. However, matters such as fixing the rate schedules and setting up an organization for fast evaluation of overseas credit ratings still are unsettled. These are precisely the things that will make or break the new program.

At best, it will not provide an automatic accelerator for U.S. exports. If U.S. industry is to expand its shipments abroad, it still will have to push its sales, and turn out products that are designed—and priced—for foreign markets.

It does not belittle the Ex-Im scheme to recognize that its impact on our total exports, and on our over-all balance-of-payments position, can scarcely be more than marginal. It is a valuable weapon that the Administration can use as it continues to attack the payments problem on a broad front.

